

103

CAN STATE AND LOCAL GOVERNMENTS AFFORD TO IMPLEMENT HEALTH CARE AND WELFARE REFORM?

Y 4.G 74/7:ST 2/18

Can State and Local Governments Aff...

HEARING BEFORE THE HUMAN RESOURCES AND INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED THIRD CONGRESS

FIRST SESSION

OCTOBER 6, 1993

Printed for the use of the Committee on Government Operations



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1995

85-841 CC

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-046601-6

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON, D.C. 20402

MAR 7 1995

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON, D.C. 20402

103

CAN STATE AND LOCAL GOVERNMENTS AFFORD TO IMPLEMENT HEALTH CARE AND WELFARE REFORM?

Y 4.G 74/7:ST 2/18

Can State and Local Governments Aff...

HEARING

BEFORE THE

HUMAN RESOURCES AND INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

OCTOBER 6, 1993

Printed for the use of the Committee on Government Operations



U.S. GOVERNMENT PRINTING OFFICE

85-841 CC

WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-046601-6

U.S. GOVERNMENT PRINTING OFFICE
16-70700-1

MAR 7 1995

U.S. GOVERNMENT PRINTING OFFICE
16-70700-1

COMMITTEE ON GOVERNMENT OPERATIONS

JOHN CONYERS, JR., Michigan, *Chairman*

CARDISS COLLINS, Illinois
GLENN ENGLISH, Oklahoma
HENRY A. WAXMAN, California
MIKE SYNAR, Oklahoma
STEPHEN L. NEAL, North Carolina
TOM LANTOS, California
MAJOR R. OWENS, New York
EDOLPHUS TOWNS, New York
JOHN M. SPRATT, JR., South Carolina
GARY A. CONDIT, California
COLLIN C. PETERSON, Minnesota
KAREN L. THURMAN, Florida
BOBBY L. RUSH, Illinois
CAROLYN B. MALONEY, New York
THOMAS M. BARRETT, Wisconsin
DONALD M. PAYNE, New Jersey
FLOYD H. FLAKE, New York
JAMES A. HAYES, Louisiana
CRAIG A. WASHINGTON, Texas
BARBARA-ROSE COLLINS, Michigan
CORRINE BROWN, Florida
MARJORIE MARGOLIES-MEZVINSKY,
 Pennsylvania
LYNN C. WOOLSEY, California
GENE GREEN, Texas
BART STUPAK, Michigan

WILLIAM F. CLINGER, JR., Pennsylvania
AL McCANDLESS, California
J. DENNIS HASTERT, Illinois
JON L. KYL, Arizona
CHRISTOPHER SHAYS, Connecticut
STEVEN SCHIFF, New Mexico
CHRISTOPHER COX, California
CRAIG THOMAS, Wyoming
ILEANA ROS-LEHTINEN, Florida
DICK ZIMMER, New Jersey
WILLIAM H. ZELIFF, JR., New Hampshire
JOHN M. MCHUGH, New York
STEPHEN HORN, California
DEBORAH PRYCE, Ohio
JOHN L. MICA, Florida
ROB PORTMAN, Ohio

BERNARD SANDERS, Vermont
(Independent)

JULIAN EPSTEIN, *Staff Director*
MATTHEW R. FLETCHER, *Minority Staff Director*

HUMAN RESOURCES AND INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE

EDOLPHUS TOWNS, New York, *Chairman*

HENRY A. WAXMAN, California
THOMAS M. BARRETT, Wisconsin
DONALD M. PAYNE, New Jersey
CRAIG A. WASHINGTON, Texas

STEVEN SCHIFF, New Mexico
STEPHEN HORN, California
JOHN L. MICA, Florida

BERNARD SANDERS, Vermont (Ind.)

EX OFFICIO

JOHN CONYERS, JR., Michigan

WILLIAM F. CLINGER, JR., Pennsylvania

RONALD A. STROMAN, *Staff Director*

MARTINE M. DICROCE, *Clerk*

MARTHA B. MORGAN, *Minority Professional Staff*

CONTENTS

Hearing held on October 6, 1993	Page 1
Statement of:	
Gephardt, Hon. Richard A., a Representative in Congress from the State of Missouri	4
McDonald, Gregory J., Director of Operations, Human Resources Division, General Accounting Office, accompanied by James L. Kirkman, Associate Director	19
Scheppach, Raymond C., executive director, National Governors' Association	52
Shafroth, Frank, director, National League of Cities	76
Todd, Barbara S., president, National Association of Counties	64
Towns, Hon. Edolphus, a Representative in Congress from the State of New York, and chairman, Human Resources and Intergovernmental Relations Subcommittee: Opening statement	1
Letters, statements, etc., submitted for the record by:	
Gephardt, Hon. Richard A., a Representative in Congress from the State of Missouri: Prepared statement	8
McDonald, Gregory J., Director of Operations, Human Resources Division, General Accounting Office:	
Information concerning estimates of Federal mandates costs	47
Prepared statement	22
Mica, Hon. John L., a Representative in Congress from the State of Florida:	
Resolution No. 93-R-243, adopted by the Board of County Commissioners of Seminole County, FL	17
Questions for GAO from Representative Clinger	92
Scheppach, Raymond C., executive director, National Governors' Association : Prepared statement	55
Shafroth, Frank, director, National League of Cities: Prepared statement	79
Todd, Barbara S., president, National Association of Counties: Prepared statement	67

APPENDIX

Material submitted for the hearing record	103
---	-----

CAN STATE AND LOCAL GOVERNMENTS AFFORD TO IMPLEMENT HEALTH CARE AND WELFARE REFORM?

WEDNESDAY, OCTOBER 6, 1993

HOUSE OF REPRESENTATIVES,
HUMAN RESOURCES AND
INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. Edolphus Towns (chairman of the subcommittee) presiding.

Present: Representatives Edolphus Towns, Donald M. Payne, Steven Schiff, and John L. Mica.

Also present: Representative Gary A. Condit.

Staff present: Ronald A. Stroman, staff director; Martine M. DiCroce, clerk; and Martha B. Morgan, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN TOWNS

Mr. TOWNS. The Committee on Government Operations Human Resources and Intergovernmental Relations Subcommittee hearing will come to order.

The hearing is on the financial ability of States and local governments to implement health and welfare reform. Last year, House majority leader, Richard Gephardt, asked the General Accounting Office to study the financial conditions of State and local governments.

At today's hearing, the majority leader will release the results of that report. The subcommittee will examine the implications of the GAO report for State and local governments, in view of the administration's health care reform proposal, and soon to be released welfare reform package. Each of these initiatives will require large expenditures of funds by State and local governments.

Over the last 10 years, many State and local governments have experienced an unprecedented loss of revenue, particularly in major urban areas. Several recessions and the exodus of businesses and middle class taxpayers have further reduced revenue growth.

Simultaneously, there has been an increasing demand for social programs at a time when the Federal Government has reduced its level of funding to State and local governments. These conditions could spell disaster for health and welfare reform.

The American Health Security Act will create a sweeping array of new duties for the 50 States. Under the administration's proposal, States assume primary responsibility for ensuring that all eligible individuals have access to a health plan that delivers the nationally guaranteed comprehensive benefit package.

For example, each State must establish health alliances and qualify health plans to participate in alliances. Each State establishes a mechanism to assess the quality of health plans, their financial stability and capacity to deliver these comprehensive benefit packages. States must also have an agency that assumes control of a failed plan.

In view of their shrinking resources, Congress must assess whether the States have the money and the flexibility to implement this major initiative. I am concerned that the President's health care plan, while reducing expenditures at the State level over the next 10 years, will put the major burdens on the States in the short run.

We must also assess whether States like New York, which make substantial financial commitments to servicing the poor, will be adequately compensated under the new proposal. The existing Medicaid program has failed to distinguish between the different needs and fiscal pressures that States must confront, and New York has suffered tremendously.

The Clinton proposal must also end the two-tiered system of health care that has failed to meet the health needs of the poor, racial minorities and women, and does not provide States with the flexibility and resources to meet those needs.

Currently, our underserved communities have second rate health care with no real access to the primary and preventive services.

The current plan creates barriers to such access, such as requiring copayments by the poor before receiving health care, which could undermine the entire proposal. I am also concerned that poor women may not have access to necessary mammograms, pap tests, and other preventative health services. Unless we address these inequities, the proposal will have failed to achieve the principle of equal choice.

Congress and the administration must devise strategies to ensure that every city, State, and county has the highest quality of health and welfare reform without having to reduce other essential services.

I would like to yield now to Mr. Mica from Florida.

Mr. MICA. Thank you, Mr. Chairman, and I want to welcome the distinguished majority leader here today.

I am pleased that you sought this review of the impact of what we do with the health care proposal in the Congress, and its impact particularly on the local governments.

Having spent some time in local governments, and we have one of our distinguished commissioners who is from Florida, Barbara, today sitting just behind you, I spent 4 years in local government and I have always been concerned that the local government has always had the direct responsibility for services.

State government has had the—very often the authority and the Federal Government has provided the mandates, and this has placed a tremendous burden on local governments. They already

are providing health care and indigent services and direct services to the people.

So that is a major concern to me. Just as we arrived yesterday, I had a resolution from the Seminole County Commission, Seminole County is just above Orlando and those commissioners expressed concern in a resolution to myself and other Members of Congress about the impact of Federal mandates.

Also, since we have been here, we have imposed additional mandates, family and medical leave has some impositions on local government, on small business, and that is a major concern, that we pass and don't fund directives to local government.

So now comes the question of health care costs and how they are absorbed, so I am anxious to hear the results of what you have learned. I commend the chairman for holding this hearing, and welcome the input that we have from you and the other witnesses.

Mr. TOWNS. Thank you very much, Congressman Mica.

We have been joined this morning by a colleague, Gary Condit of California, who chairs the Subcommittee on Information, Justice, Agriculture, and Transportation. Congressman Condit has been a longstanding Member in terms of making certain that when it comes to dealing with problems that counties and States and our cities have. He has also served as a mayor of a city, so he has been very close to the situation.

Gary Condit.

Mr. CONDIT. Thank you, sir. First of all, Mr. Chairman, I would like to commend you for holding this hearing and allowing me to sit on the panel today. I appreciate that very much, and I am very pleased to be a part of what I understand to be a series of hearings that will examine the impact of unfunded Federal mandates on States, counties, and cities.

This issue is, in my opinion, the most crucial aspect of the health care and welfare reform proposals before us today. There will be significant costs involved as we enact these and other reforms. These costs cannot and should not be shifted to our States, counties, and cities.

We at the Federal level of government must take responsibility for the reforms we pass and how they will affect communities across this Nation.

To begin with, we must stop the practice of passing legislation and then requiring local governments to pay the cost of implementing the Federal legislation. As the General Accounting Office report that has been released today demonstrates, cities, counties, and States cannot afford to pay Federal bills.

It is unfair to communities that do not have adequate health, welfare, housing, criminal justice, and safety services.

While unfunded Federal mandates are not the only cost impacting State and local governments, they are a problem created by the Federal Government and one that the Federal Government can correct and that we should correct.

The ranking Republican member of the full committee, Mr. Clinger and I, are cochairmen of the Unfunded Federal Mandate Caucus which has 67 members, and is a bipartisan group.

Vice President Gore's National Performance Review recommended that the President should issue a directive limiting the

use of unfunded mandates by the administration. The NPR also recommends that Congress should refrain from passing legislation if it does not provide the funds to pay for achieving legislative goals.

Mr. Chairman, I am deeply committed to working very closely with you and with the majority leader and the administration to make these critical reforms, and I appreciate the opportunity to be here today.

Mr. TOWNS. Thank you very much. It is a delight to have you with us. Let me move forward.

It is indeed an honor to present a man who needs no introduction to this subcommittee, the majority leader of this House, the Honorable Richard Gephardt.

Throughout his distinguished career, the majority leader has championed the cause of State and local governments. The report he is releasing today is the second in a series of the financial conditions of State and local governments.

Mr. Leader, it is an honor to have you before this committee. We have your prepared statement which we will include every page and every word in the record.

Please proceed as you wish.

STATEMENT OF HON. RICHARD A. GEPHARDT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. GEPHARDT. Thank you, Mr. Chairman, and members of the committee. I am very pleased to be here. I highly commend you for having these hearings.

I think this is a very important subject as we enter into a discussion of health care reform and welfare reform. Clearly if you talk to any local public official or any State government official in your States, as I know you do on a frequent basis, you are always met with the question of whether or not we are conducting a proper policy in the Federal Government with regard to mandates.

There is a continual complaint by State and local officials that they are asked to do things in terms of public policy and that they are not provided with sufficient funds from the Federal Government to carry some of those things out.

I was a local city council person in St. Louis for 5 years before I ran for the Congress. I maintain a close relationship with all of the people that I worked with at the local level. I have many other local governments, as all of you do, in my district and I talk to them regularly about this whole set of problems.

A couple of years ago, our country was in the depths of a double-dip recession. In the face of economic downturn and fiscal contraction, lawmakers at the Federal level struggled with an increasing deficit and increasing demands for services by Americans who were bearing the brunt of a recession.

Certainly the national recession and Federal policies had an impact on State and local governments, which were experiencing fiscal difficulties of their own. And as the State and local fiscal situation worsened, we at the Federal level began to search for solutions to very real problems.

There was no reliable aggregate information on the breadth and depth of the problems facing local and State governments.

In September 1991 I requested the General Accounting Office to conduct an indepth study of the fiscal condition of State and local governments in order to identify the sources and implications of these problems on national and local levels.

The fiscal condition of our State and local governments is absolutely critical to our Nation's economic health. This summer we took a major step toward restoring our strength by enacting the President's deficit reduction plan.

In order to continue on the road to economic recovery, we have got to address the impediments to economic growth at the State and local level.

I think all of us are aware of the strain that health care spending puts on Federal, State, and family budgets. Until we can figure out how to decrease health care's share of government spending, we cannot seize control of our economic destiny.

Another key component to encourage and facilitate economic growth in States and localities is enabling all levels of government to operate more effectively and efficiently.

This GAO report gives real insight to the capacity of State and local government to implement new policy reforms and deliver services.

Now, in this report, it was said that in 1989, the Nation suffered slow economic growth and a corresponding recession. These factors resulted in increased spending for social safety net programs and frankly reduced revenues at all levels of government.

The report indicated that spending pressures also increased due to new Federal and State government mandates and policy decisions, as well as run away health care costs.

In contrast, the report says revenues were held down by the recession, decreasing Federal grants to States and localities, as well as local and State voter reluctance to increase taxes, and I might add, voter reluctance at the Federal level to increase taxes.

These competing forces, the report says, made it increasingly difficult for State and local governments to meet all of their responsibilities. Consequently, State revenue burdens on personal income increased and both State and local governments cut programs and payrolls in order to reduce spending.

These efforts took a toll on the short term budgetary condition of State and local governments. And while most jurisdictions had amassed budgetary surpluses in the early part of the 1980's, they rapidly drew down their surpluses and some fell into deficit positions.

These declining surpluses, and in some cases new deficits, have decreased the flexibility of State and local governments to meet the increasing social needs of their constituents. Despite declining budgetary surpluses, however, other short-term budget indicators, such as cash and security holdings and debt, remained stable or improved for the majority of jurisdictions.

The GAO has surmised that the short-term budget condition of State and local governments may improve as our national economy improves, or as our fiscal policy is adjusted to relieve contrary spending and revenue pressures.

At the Federal level, we have already begun to take steps to relieve these pressures. As Vice President Gore recognized in the Na-

tional Performance Review report, we must consider the fiscal implications at all levels of government in our deliberations on Federal public policy initiatives that will be implemented at the State and local level.

President Clinton's health care program will be good news, in my view, for State budgetary problems. States will no longer face open-ended liability for run away health care costs. Once we enact health care reform, cost containment measures will limit health care spending to a predictable level that is below current spending predictions.

Rather than pushing costs onto State government, the Federal Government will stand as the guarantor for unanticipated growth or run away growth in the system.

The GAO also examined the long-term fiscal capacity of State and local jurisdictions to provide a basic level of public services, given their individual socioeconomic compositions.

The disparity between State fiscal capacities declined over the past 20 years, mostly due to improved conditions in the poorest States. However, the GAO confirmed that a wide disparity between cities' abilities to provide an average level of services.

The weakest cities in our country are plagued by deterioration of the industrial base and middle class flight to surrounding suburbs, leaving mismatched high social spending needs and low tax base. These cities, which are prevalent in the Midwest and Northeast, need outside aid equal to about 36 percent of their revenue base to be able to provide only average levels of services to their residents.

Without this help, these jurisdictions are going to be forced to levy heavy tax burdens on inner city residents who are the least able to afford it. And to make matters worse, a number of these cities are experiencing short-term budgetary problems which constrain their ability to strengthen their long-term fiscal capacity.

This nexus of long and short-term budgetary problems in some of our central cities presents a very serious dilemma for our country. Lawmakers at all levels of government must work together to develop targeted policies that will reverse this systemic trend that plagues these urban areas.

Eliminating duplicative and cumbersome administrative and regulatory requirements, I think, is essential to this effort. We must be able to coordinate and direct government assistance. To that end, I support the Local Flexibility Act sponsored by the Government Operations Committee, Chairman Conyers and Ranking Member Clinger, which would give local governments and private, not-for-profit organizations the flexibility to propose integrated plans for more efficient and effective use of Federal assistance.

I, and I know you, are deeply concerned about the fiscal plight of our Nation's urban areas, and I intend to propose a comprehensive legislative agenda to facilitate economic growth and combat the forces that limit the fiscal capacity of these jurisdictions. Certainly we must not leave these cities behind, as America's economy is only as strong as its weakest link.

As we in the Congress formulate Federal policy, we have got to be mindful of both short-term and long-term constraints on State

and local governments and work better to integrate Federal, State, and local government efforts.

I commend the Human Resources and Intergovernmental Relations Subcommittee, and you, Chairman Towns, for your great efforts to facilitate the dialog between these governments.

And I thank you very much for having this hearing today to direct attention to these problems, to direct attention at what I think is a good report by the General Accounting Office, and I will cooperate with you and the Members of this committee in any way that I can to help move us in a positive direction to solve these problems.

Thank you.

Mr. TOWNS. Thank you very much for your statement. We look forward to working with you in terms of trying to bring about some solutions to the problems.

[The prepared statement of Mr. Gephardt follows:]

RICHARD A. GEPHARDT
MISSOURI
MAJORITY LEADER

H-148 U.S. CAPITOL
202-225-0100

Congress of the United States
House of Representatives
Office of the Majority Leader
Washington, DC 20515-6502

**TESTIMONY OF HOUSE MAJORITY LEADER RICHARD A. GEPHARDT
ON STATE AND LOCAL FINANCIAL CONDITIONS**

Two years ago, this country was in the depths of a double dip recession. In the face of economic downturn and fiscal contraction, lawmakers on the federal level struggled with an increasing budget deficit and increasing demands for services to Americans who were bearing the brunt of the recession.

Certainly, the national recession and federal policies had an impact on state and local governments, which were experiencing fiscal difficulties of their own. As the state and local fiscal situation worsened, we at the federal level began searching for solutions. There was no reliable aggregate information on the breadth and depth of the problems facing state and local governments. In September of 1991, I requested the General Accounting Office to conduct an in-depth study of the fiscal condition of state and local governments in order to identify the sources and implications of these problems on national and local levels.

The fiscal condition of our state and local governments is critical to our nation's economic health. This summer, we took a major step toward restoring this country's economic strength by enacting President Clinton's deficit reduction plan. In order to continue on the road to economic recovery, we must address impediments to economic growth at the state and local level.

We are all aware of the strain that health care spending puts on federal, state and family budgets. Until we decrease health care's share of spending, we cannot seize control of our economic destiny. Another key component to encourage and facilitate economic growth in states and localities is enabling all levels of governments to operate more effectively and efficiently. This GAO report gives insight to the capacity of state and local governments to implement new federal policy reforms and deliver services.

In 1989 the nation suffered slow economic growth and a corresponding recession. These factors resulted in increased spending for social safety net programs and reduced revenues at all levels of government. Spending pressures also increased due to new federal and state government mandates and policy decisions, as well as run-away health care costs. In contrast, revenues were held down by the recession, decreasing federal grants to states and localities, as well as voter reluctance to increase taxes.

These competing forces made it increasingly difficult for state and local governments to meet all of their responsibilities. Consequently, state revenue burdens on personal income increased, and both state and local governments cut programs and payrolls in order to reduce spending. These efforts took a toll on the short-term budgetary condition of state and local governments. While most jurisdictions had amassed budgetary surpluses in the early 1980s, they rapidly drew down these surpluses, and some fell into deficit positions.

These declining surpluses, and in some cases new deficits, have decreased the flexibility of state and local governments to meet the increasing social needs of their constituents. Despite declining budgetary surpluses, however, other short-term budget indicators such as cash and security holdings and debt, remained stable or improved for the majority of jurisdictions. GAO has surmised that the short-term budget condition of state and local governments may improve as our national economy improves, or as our fiscal policy is adjusted to relieve contrary spending and revenue pressures.

At the federal level, we have already begun to take steps to relieve these pressures. As Vice President Gore recognized in the National Performance Review Report, we must consider the fiscal implications at all levels of government in our deliberations on federal public policy initiatives that will be implemented at the state and local level. President Clinton's health care program will be good news for state budgetary problems. States will no longer face open-ended liability for run-away health care costs. Once we enact health care reform, cost containment measures will limit health care spending to a predictable level that is below current spending predictions. Rather than pushing costs onto state governments, the federal government will stand as the guarantor for any unanticipated growth in the system.

GAO also examined the long-term "fiscal capacity" of state and local jurisdictions to provide a basic level of public services, given their individual socioeconomic compositions. The disparity between state fiscal capacities declined over the past twenty years, mostly due to improved conditions in the poorest states. However, GAO found a wide disparity between cities' ability to provide an average level of services.

The weakest cities are plagued by deterioration of the industrial base and middle-class flight to the surrounding suburbs, leaving mismatched high social spending needs and low tax bases. These cities, which are most prevalent in the midwest and northeast regions, need outside aid equal to about 36 percent of their revenue base to be able to provide only average levels of services to their residents. Without this help, these jurisdictions will be forced to levy heavy tax burdens on inner-city residents who can least afford it. To make matters worse, a number of these jurisdictions are experiencing short-term budgetary problems which constrain local officials' ability to strengthen their long-term fiscal capacity.

This nexus of short- and long-term budgetary problems in some of our central cities presents a serious dilemma for our country. Lawmakers at all levels of government must work together to develop targeted economic development policies that will reverse this systemic trend that plagues these urban areas. Eliminating duplicative and cumbersome administrative and regulatory requirements is essential to this effort. We must be able to coordinate and direct government assistance. To that end, I support the Local Flexibility Act sponsored by Government Operations Committee Chairman Conyers and Ranking Member Clinger, which would give local governments and private, not-for-profit organizations the flexibility to propose integrated plans for more efficient and effective use of federal assistance.

I am deeply concerned about the plight of our nation's urban areas, and I intend to propose a comprehensive legislative agenda to facilitate economic growth and combat the forces that limit the fiscal capacity of these jurisdictions. Certainly, we must not leave these cities behind, as America's economy is only as strong as its weakest link.

As we in the Congress formulate federal policy, we must be mindful of both short-term and long-term constraints on state and local governments and work to better integrate federal, state and local government efforts. I commend the Human Resources and Intergovernmental Relations Subcommittee, and you, Chairman Towns, for your efforts to facilitate the dialogue between these jurisdictions. And I thank you for the opportunity to appear before you today.

Mr. TOWNS. The General Accounting Office concludes that certain State and local governments will have difficulty implementing health care and welfare reform because of the high concentration of poor people in their jurisdiction. I think in terms of New York where we have a large number of undocumented TB epidemic, AIDS epidemic, and should this concern be reflected in our health care and welfare reform legislation for a city that has all kinds of problems and of course high unemployment and—business getting worse, and then when you look at health care reform, you get excited about it to a degree, but then when you look and you find out that there is 500,000 undocumented that will not be included, that you have a TB epidemic there that does not address that as well, and then an AIDS problem that it does not address, so then your excitement is short lived.

So what do you think that we can do with cities like that?

Mr. GEPHARDT. Mr. Chairman, first, let me say that as we do health care reform, we have to be very focused, in my view, on the kind of problems that you just presented.

I also, though, believe that if we simply refuse to do health care reform, that all of the problems you just mentioned will not only continue to plague State and local government, but they will burgeon in the magnitude of the problem.

If we don't—the option of doing nothing is unacceptable. Health care costs are, you know, exceeding inflation by 2 and 3 times in most States and even higher in some States. The undocumented workers, people who can't afford health insurance, are already using Medicaid, are using public hospitals, are using county hospital facilities, and so that is not going to change if we refuse to do something.

So the question is, and you have asked it properly, how do we do this in a way that we can make progress on these problems, not put more costs on State and local government, and really begin to move in a proper direction?

First of all, if we can really begin to contain health care costs across the board, if we can get an integrated health care system where we are not making hospital administrators professional cost shifters, or doctors professional cost shifters, that would be a real step in the right direction.

Second, if we can get real market forces to begin holding down the rate of increase in all health care policies, that will be a major help, and that indeed has to be looked at very carefully in this plan.

Third, we need to carefully look at how the Medicaid program is treated in this health care program. Now, in the Clinton program, as I understand it, there is an attempt to distinguish what we call cash Medicaid recipients and noncash recipients.

In other words, Medicaid recipients that are on welfare and those that are not. And in both cases, it is my understanding that in addition to trying to bring this population into the normal market forces that we hope will affect everybody else—in other words, they will begin to buy their health care policy through alliances and have the competitive pressures there that will hopefully hold costs down—there is an attempt to hold State government harmless in terms of the costs they are now paying for Medicaid, with the hope

that if health care costs are generally brought down, that the State's share of Medicare costs will also be held down. That at least is the theory and the hope, the practical hope that is included in this plan.

Now, obviously the Federal Government has a responsibility with regard to immigration. The Federal Government, therefore, I believe, has a responsibility when undocumented workers or people wind up in State and local hospital facilities and present a cost to those State and local governments, and I believe, to the extent we are to be blamed for a failure of implementing the immigration laws, that we must be of some help to these State and local governments in carrying out those extraordinary health care expenses.

So my answer is, I hope and believe this health care plan, if done right, will help cut and hold down on health care costs of local and State governments. To the extent we have not done our part in implementing the immigration laws, we are going to have to be a part of and perhaps a greater part of taking care of those extraordinary costs, which incidentally will be more disaggregated and visible if health care reform passes as they have been in the past.

Mr. TOWNS. Thank you very much, Mr. Majority Leader. I yield now to Congressman Mica.

Mr. MICA. Mr. Gephardt, you hit a sensitive nerve on the question of immigration, coming from Florida, and I am very concerned of what I have seen just in the 9 months I have been in Congress.

We have a law, policy that excluded HIV positives and we passed a measure that the President signed into law and I introduced a bill just to reimburse Florida for the costs of what will—we will probably end up with 120 of 150 Haitian HIV positives that the President brought into the United States.

So on one hand, I hear you saying this, the report saying that we have to pay attention to immigration and the impact. Here in 9 months, we have already had another disaster. I am going to have millions of dollars of costs with these HIV infected individuals that have been let in. That is one instance.

Everything this Congress has done so far has been further mandates on local government. We passed the Family and Medical Leave Act. We provided no assistance, and that will impact State and local governments.

Motor Voter, we passed Motor Voter. There is no funding in there to assist them. The tooth ferry isn't going to register these people. It is another impact on them. The resolution—and this wasn't prompted by this hearing, but I got this resolution yesterday from my county commission.

Now, we say one thing and we do something else, so how do you—how do we address this? You have been a part of this, I have been a part of it, and the Congress is not responding. What hope do we have that this isn't going to be another straw that breaks the back of local government?

Mr. GEPHARDT. Well, two things. One, I believe that by having this report, by having this hearing, we are highlighting the nature and the magnitude of this problem, and I agree with you that if we want certain policies to be followed by State and local governments, we have to be much more straightforward about how they

are going to be helped to pay for these policy changes, and I think there are two—maybe three things that we need to do.

One, in passing any legislation, we should probably attach some kind of a rider or a provision that at least states forthrightly what the best estimate of what the cost to local government will be and how we are going to deal with it. Maybe that is a suggestion that we might take out of this committee generally to the Congress.

Second, I think that the Vice President's report, as Representative Condit says, gives us an excellent opportunity to oversight ourselves and to go back to the kinds of things that you brought up and to make perhaps a different judgment on exactly how these things are going to be paid for, and, again, to be more forthright with State and local government about how we are going to cooperate together.

Third, I think the Vice President's report also indicates that we need to get rid of a lot of regulatory underbrush that already exists to give State and local governments more flexibility in dealing with problems with Federal money. So that there are less strings attached, more ability to bring together both Federal, State, and local money to address problems, and it may be that we need to come back through voting rights acts, Motor Voter type bills, bills on family leave, and say once again, we didn't do this exactly the way we should have, let's relook at it.

Let's try to get some of the regulatory underbrush out and see if we can make this work better. That is really the purpose, I think, of this hearing is to raise those issues and try to review what we have done and to see if we can make it better, fix it.

Mr. MICA. Well, just again, having only been here 9 months, I guess a parade of local officials of, how do we comply? Clean Air and Water Act. Right now they are beside themselves on how they are going to comply with the mandates. Some of them unreasonable, some of them duplicative and they are very concerned about that.

The other thing too is this Congress has a reputation of not following through. We pass revenue sharing. We take revenue sharing away. We passed grant programs and aid programs and we take them away, so we don't have a very stable reputation.

The—another question that I have deals with a subject you brought up relating to, and you said, cost containment measures will limit health care spending to a predictable level that is below current spending predictions.

As a member of the legislature back in the 1970's, I opposed a hospital cost containment bill, 79, in Florida which was touted as going to bring all hospital costs under some control. I am very leery of these cost containment provisions or schemes by government, and then you also referred to, you believe that market forces are important.

How do you justify your commentary that we need these government cost containment measures and then market forces, which seem diametrically opposed by my experience? What is your commentary on that?

Mr. GEPHARDT. Sure. I have the same concerns you do about price controls. I think they are largely avoided. I think they are less than effectual, and that is the reason I think when they wrote

this health care plan, they looked for the ability to use market forces to try to hold down on health care costs, and that is why in the plan they have used a tax mechanism after a period of transition to send a clear signal to consumers that if you want to buy a plan that is at the average in your region, then the government will totally give you all of the tax subsidies and help that we do now, but if you want to buy something greater than that, then you will not get the tax subsidies for the amount between the average amount and what you choose above that.

This is hard to do immediately because all of us are on a different point in the racetrack. Some people have very generous plans that they have gotten with their employers. Others have very meager plans, and to say to people right now, given the history of what we have gone through, we are going to put an average cost into the mechanism and you are going to be stuck with that today is pretty hard to do, so they give a period of time for this to come in.

But I believe when it comes in, it will be the best way to use market forces to get consumers to really be tough shoppers for the most cost effective health care plan they can get.

Now, in the meantime, while that is going on, there is an attempt in the bill to put a limit on a national health care budget through controlling the increase in the price of premiums for annual plans. Now, that is something we have to sort our way through in the debate on this plan. It may or may not be the best way to get at it.

Our problem is that to put the tax mechanism in, which I think is the best way to go about this, you really need to leave 5, 6, 7, 8, some say 10 years of transition in order for people to get to the same place on the track.

Mr. MICA. Well, in conclusion, I just want to thank you, again, the majority leader, for his contribution today and the chairman, and I think we are all public witness that we have got a firm commitment from the majority witness that as of this day, they will join me and no longer vote for any unfunded Federal mandate legislation, so—

Mr. GEPHARDT. And to go back and look at the ones that we have done.

Mr. MICA. Thank you, sir. Thank you.

Mr. TOWNS. Thank you very much, Congressman Mica.

I yield now to Congressman Condit.

Mr. CONDIT. Well, first of all, I too would like to commend the majority leader for requesting the GAO report and trying to find out the financial status of local governments, and I want to express my appreciation to you for this work.

I would like to followup on Mr. Mica's first question. You made a suggestion that possibly we should revisit some of the legislation that passed, such as Motor Voter, voting rights, family leave, which are all laudable goals, and very honorable things to do. I don't think most people will find fault with the goals and objectives of that legislation, but I do agree that we should go back and revisit those. What I would like to know is, is it possible—we are going to debate this issue and we should, but is it possible for us in some way to, in the short term, have a moratorium on legislation that

is moving today and moving through the House in this session so that we don't do this, so that we don't continue to put burdens on local governments and then have to come back after the election or next year and revisit those issues?

Is there something we can do in the short term to find out what the cost is to local governments and maybe do a moratorium so that we don't pass unfunded mandates and so that we don't have to go back and revisit those issues?

Mr. GEPHARDT. I think hopefully by this report and by this hearing and other hearings you are going to have and other activities we can have, we can greatly heighten the understanding and sensitivity of all of our Members and everyone in the Congress to this problem, and begin, through the mechanism of review before we bring legislation to the floor that has consequences for State and local governments where we are not helping to fund these, to have these brought out forthrightly.

Maybe the idea would be to require some kind of rider or provision on every bill that would address this question. We used to have fiscal notes required on some legislation. Maybe we need a State and local cost note where we at least have to face the question squarely as opposed to just going forward with the emotion of the moment.

Mr. CONDIT. Well, I offered an amendment to the Voting Rights Act but it failed on the floor.

On Motor Voter, I could not get a rule to offer such amendment, but I would encourage you to assist us in doing that, even if it is just at a minimum, defining what the cost is.

Mr. GEPHARDT. Right.

Mr. CONDIT. For me that is not enough. We actually need to reimburse the cost, but at least in the short term if we could do that, that would be most helpful and I do appreciate you being here and your interest in this issue.

Mr. GEPHARDT. It is a very helpful suggestion.

Mr. TOWNS. Let me thank you too, Majority Leader, for coming and the leadership you provided in this area, and I wanted to note that it is greatly appreciated.

But let me just say to my colleagues though, I don't think we need to go back and visit too much. I think that the Motor Voter, leave it alone. Voting rights, leave it alone. I think there is enough that we have confronting us to just sort of go forward and begin to examine it from that point on, so I would suggest that as we look at health care, we look at welfare reform, we look at all the other things coming down the road, I think that there will be enough to sort of keep us busy and to be able to just try to begin to protect from this point on, and I here again appreciate the leadership that you have shown in this area and your concern and your commitment, recognize your sensitivity to it and, the fact that there should be flexibility in order for State and local governments to do some of the things we are asking them to do.

So I look forward to working with you from this point on. I am not too interested in going way back and dealing with Motor Voter and civil rights. I want to go on the record saying that.

Thank you very much.

Mr. GEPHARDT. Thank you very much, appreciate it.

Mr. MICA. Mr. Chairman, I would like to ask unanimous consent that this resolution from the Board of County Commissioners of Seminole County, FL, be made a part of the record.

Mr. TOWNS. Without objection, it will be included.
[The information follows:]

Resolution No. 93-R-243

OCT 04 1993

RESOLUTION

THE FOLLOWING RESOLUTION WAS ADOPTED AT THE
REGULAR MEETING OF THE BOARD OF COUNTY
COMMISSIONERS OF SEMINOLE COUNTY, FLORIDA, ON
THE 28TH DAY OF SEPTEMBER, A.D., 1993.

WHEREAS, the number of unfunded federal mandates on counties and cities have significantly increased during the last decade, while many federal programs, which were made available to local governments to ease the burden of carrying out federal mandates, have been terminated or drastically reduced; and

WHEREAS, such mandates stem from federal laws and regulations that require Seminole County and cities to provide services and programs, and perform certain responsibilities without providing federal funding for such services; and

WHEREAS, by shifting costs to counties and cities, unfunded federal mandates breach the underlying principles of federalism which assumes a working partnership and shared responsibilities between federal, state and local governments; and

WHEREAS, such excessive fiscal burdens on State and local governments have undermined, in many instances, the ability of State and local governments to meet their responsibilities under State and local law; and

WHEREAS, American citizens are oftentimes unaware of the impact of unfunded mandates on local services and their own local taxes; and

WHEREAS, risk assessment is an essential component to any cost benefit analysis of mandates and should be included in all bills that impose mandates on counties and cities; and

WHEREAS, Senate Bill 993 the "Community Regulatory Relief Act", has been introduced for adoption before the United States Senate.

NOW THEREFORE, BE IT RESOLVED that Seminole County urges Congress and the Administration to enact legislation that would relieve counties and cities of all obligations to carry out any new

CERTIFIED COPY
MARYANNE MORSE
CLERK OF CIRCUIT COURT
SEMINOLE COUNTY, FLORIDA
BY Charles Cole
DEPUTY CLERK

mandate arising from federal law, regulation or policy unless federal funds are provided; no money, no mandates.

BE IT FURTHER RESOLVED that Congress and the Administration are urged to enact legislation to pay for the cost of federal mandates and to reimburse local governments for the costs of complying with existing federal mandates.

BE IT FURTHER RESOLVED, that we the members of the Board of County Commissioners of Seminole County, Florida, do hereby express the following:

Section 1. Its support for the passage and adoption of Senate Bill 993, the "Community Regulatory Relief Act".

Section 2. Its support for the purposes, goals, and objectives of the "Community Regulatory Relief Act".

Section 3. Requests that Florida's United States Senators support Senate Bill 993, the "Community Regulatory Relief Act".

BE IT FURTHER RESOLVED, that Congress and the Administration are urged to include in any future mandate, a provision that requires federal departments and agencies to provide scientifically sound assessments of purported health, safety or environmental risk prior to the imposition of any new mandate on local governments.

BE IT FURTHER RESOLVED, that the Seminole County Government wholeheartedly supports **NATIONAL UNFUNDED MANDATE AWARENESS DAY** to be held in the Fall of 1993 during which County officials in all counties will be urged to hold press conferences in coordination with local and state officials to draw public attention to the problems imposed on counties by unfunded federal mandates.

BE IT FURTHER RESOLVED, that this Resolution be spread upon the Official Minutes by the Clerk of the Circuit Court of Seminole County, Florida; and forwarded to our Congressional Delegation and U.S. Senators.

ADOPTED this 28th day of September, 1993.

* * * * *


Maryanne Morse, Clerk to
Board of County Commissioners
in and for the County of
Seminole, State of Florida


Dick Van Der Weide,
Acting Chairman
Board of County Commissioners
Date 9/30/93

Mr. MICA. Thank you.

Mr. TOWNS. Our next witness is Mr. Gregory McDonald. Mr. McDonald is the Director of Operations in the Human Resources Division of the General Accounting Office and Mr. McDonald be will be accompanied by James Kirkman, Associate Director of Operations at GAO.

Before you take your seat, it is a custom of our committee to swear in the witnesses, so if you would be kind enough to stand and raise your right hand.

[Witnesses sworn.]

Mr. TOWNS. Gentlemen, welcome to the subcommittee. We have your prepared statement which, without objection, will be included in the record. Please proceed to summarize your testimony. Your statement will be included in the record.

STATEMENT OF GREGORY J. McDONALD, DIRECTOR OF OPERATIONS, HUMAN RESOURCES DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JAMES L. KIRKMAN, ASSOCIATE DIRECTOR

Mr. McDONALD. Thank you, Mr. Chairman, and I will summarize.

Mr. Chairman, as the Nation begins to debate health care reform, welfare reform, and other major policy initiatives in which State and local governments are expected to play a key role, questions persist concerning the financial condition of these governments.

At the request of the majority leader, as we have heard this morning, we looked at the short and long-term financial conditions of States, cities, and counties. We found that from 1985 to 1991, State and local governments faced myriad spending and revenue pressures.

Most categories of programs were growing. This growth in spending partly reflected officials' choices favoring some new or expanded services and programs, but it also reflected factors beyond the immediate control of State and local officials, such as rising health care costs or regional economic problems.

Certain programs grew more rapidly than others. For example, State health care spending grew at an average annual rate of 7.6 percent during the period. Medicaid grew even faster at a average of 9.5 percent per year over the same period.

The high growth rates for health care spending were especially important because health care formed a large share of overall State spending, on average, 21 percent of States' general expenditures in 1991.

While at the beginning of the period, revenue growth was enhanced by robust economic growth, later it was dampened by a slowing economy and a recession. In many cases, revenue projections based on previous year's growth did not materialize.

In addition, jurisdictions faced declines in some types of Federal aid and experienced voter reluctance to increase taxes. Federal grants for capital projects and other general operations declined from 1985 to 1991.

Moreover, with State and local taxes plus other own-source receipts approaching a 25 year high in the mid-1980's, voters in sev-

eral States enacted limitations on revenue raising, adding to the growing list of States with such restrictions.

In response, jurisdictions acted to control program growth, cut services, and raise revenues. State and local governments instituted spending cuts that affected a variety of programs, government payrolls, and capital projects.

Many of the actions involved managing existing financial resources through measures such as tapping into contingency reserves, shifting moneys from one budget fund to another, and restructuring debt. However, other actions involved substantive efforts to raise revenues and control spending.

We note that some of these actions may simply postpone rather than eliminate costs. For example, several jurisdictions reduced or deferred capital spending, actions which may add to long-term capital costs. Off budget transaction, such as California's off budget loans to education districts may understate long-term program costs for education.

And finally, an example such as those in California and Colorado, officials told us of reductions in contributions to employee pension plans, a strategy that could result in increased future liabilities.

Revenue action ranged from increasing fees to raising taxes. These included actions to increase property sales, gas tax receipts and increase fees and charges. Increases to fees and charges were most used but you will note a particular example of revenue action occurred in Connecticut which became the 41st State to enact a broad-based personal income tax.

In spite of these budget adjustment actions, spending continued to outpace revenues, bringing year-end surpluses down. With lower surpluses to carry forward as budget cushions, jurisdictions experienced a reduced flexibility for increasing the funding of existing services or undertaking new initiatives.

However, other indicators of budgetary conditions generally did not show similar deterioration. Cash and security holdings available to each of the three levels of government generally rose slightly or remained relatively constant over the 1985 to 1991 period and levels of both short and long-term governmental debt outstanding were generally stable or decreasing.

While the sector as a whole may not have been in imminent crisis, many jurisdictions, including the State of New Jersey, the city of Detroit, Los Angeles County, and others that were widely reported on by the media experienced significant stress. Many incurred budget deficits and deterioration in other indicators of financial health.

Of the 50 States, 56 largest cities and 77 large counties we analyzed, 8 States, 16 cities, and 27 counties experienced deficits when averaged over a 3-year period between 1989 and 1991. These budget trends may improve in the short term as the economy improves, or as elected officials further adjust their spending and taxing priorities.

However, many poorer jurisdictions, those with relatively high poverty levels and low per capita income, face a more fundamental longer term problem. These jurisdictions have less capacity to fi-

nance their police, fire, and other basic services at average levels because of their relatively low tax bases.

The best example of this is seen in the older central cities that have experienced industrial-base deterioration and middle class flight to the suburbs, leaving behind high concentrations of people in poverty or with low personal incomes.

In this regard, we found a significant trend affecting our Nation's large cities. Over the past two decades, the poorer cities experienced a deterioration in the levels of basic services they could afford, while the suburbs and better off cities improved.

Residents of the poorer jurisdictions, who can least afford it, would have had to shoulder higher tax burdens than residents of better off cities to finance city services at comparable levels.

If the weakest cities had wanted to levy average tax burdens and finance services at average levels, they would have needed additional outside funds equal to an estimated 36 percent of their own tax revenues to do so.

Our study identified large cities and several large counties that faced not only a short-term problem of budget deficits, but also a long-term deterioration in the public services that they can afford to provide. Such jurisdictions may have the most difficulty in overcoming their financial problems and meeting the service needs of their residents.

Mr. Chairman, there are large disparities in the levels of services that States and cities can afford. Disparities at the city level are of particular concern to us. Absent strong economic growth in the poorer cities, residents of those cities will be left further and further behind those of better off communities in terms of receiving services for reasonable tax burdens.

Furthermore, the declines in budgetary surpluses at the State, county, and city levels which have turned into deficits in some jurisdictions are a disturbing trend. Unless reversed, it implies a decreasing flexibility, at least in the short term, for undertaking new investment programs and responding to emerging issues, such as reforms to health care and welfare, as you have mentioned this morning.

Finally, on a broader scale, the declining State and local budgetary surpluses in recent years have added to the Federal deficit's effects, impeding strong long-term growth in the economy. In this regard, this budget "problem," as we refer to it, as affects the future of the Nation's economy. It is not simply a Federal deficit problem, but rather a general governmental problem in the Federal system. Viewing the matter in this broader total intergovernmental context could help Federal officials better gauge the size of the overall problem and devise appropriate budget and economic growth strategies.

Mr. Chairman, this concludes my prepared statement. I would like to acknowledge the fact that there is a talented group of people at GAO who have contributed an awful lot to this work over the last 2 years. Many of them are here with us this morning, and I would like to acknowledge for the record their contributions and we would be happy to answer any questions you or the committee may have.

[The prepared statement of Mr. McDonald follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Human Resources and
Intergovernmental Relations, Committee on Government
Operations, House of Representatives

For Release on Delivery
Expected at 10:30 a.m., EDT
Wednesday, October 6, 1993

STATE AND LOCAL FINANCES

Some Jurisdictions Confronted by Short- and Long-Term Problems

Statement of Gregory J. McDonald
Director for Operations
Human Resources Division



SUMMARY

As the Nation begins to debate health care reform, welfare reform, and other major policy initiatives in which state and local governments are expected to play a key role, questions persist concerning the financial condition of these governments. At the request of Majority Leader Gephardt, we looked at the short- and long-term financial conditions of states, cities, and counties, using measures we developed for these purposes and data collected by the U.S. Bureau of the Census. We also did field work in selected states and localities.

We found that from 1985 to 1991, state and local governments faced myriad spending and revenue pressures. Most categories of programs were growing but certain programs grew more rapidly, such as Medicaid at the state level and public safety at the county level. The spending growth reflected not only some factors beyond the control of state and local officials, but also their choices to expand services. While at the period's outset revenues were helped by economic growth, the growth slowed and a recession set in.

In response, jurisdictions acted to control program growth, cut services, and raise revenues. State and local governments instituted spending cuts that affected a variety of programs, government payrolls, and capital projects. Revenue actions ranged from increasing fees to raising taxes. But spending continued to outpace revenues, bringing year-end budget surpluses down. Without such "budget cushions," jurisdictions had less flexibility for funding services, and some jurisdictions incurred budget deficits.

These trends may improve as the economy improves or priorities change. But many cities with high poverty levels and low incomes face a more fundamental long-term problem. These jurisdictions have less capacity to finance their police, fire, and other services at average levels because of their relatively low tax bases. In fact, several large cities and counties face not only a short-term problem of budget deficits but also a long-term deterioration in the level of services they can afford to provide--hence such jurisdictions may have the most difficulty in overcoming their financial problems and meeting the service needs of their residents.

On a broad scale, the decline in state and local budget surpluses could exacerbate the federal deficit's effects on the economy, and if so, could cause reduced long-term growth in the economy. In our view, the trends and differences in state and local financial conditions argue strongly that they be made a part of the major reform deliberations now underway.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our report on the financial condition of state and local governments.¹

As the 103rd Congress and the Administration consider health care reform, welfare reform, and other major policy initiatives that will require the participation of state and local governments, questions continue to be raised concerning the financial conditions of state and local governments. Reports of financial distress in several jurisdictions continue, raising concerns about the ability of at least some state and local governments to effectively carry out their existing responsibilities and take on new ones.

Majority Leader Gephardt asked that we look at the financial conditions of states, cities, and counties in both the short- and long-term. To do this, we developed measures for these purposes and used data collected by the U.S. Bureau of the Census. We supplemented these analyses with visits to selected states and localities that represented a variety of economic and financial circumstances.

In summary, we believe the financial stress on state and local governments has generally resulted in tight budgets across jurisdictions. In our work on the short-term financial condition

¹State and Local Finances: Some Jurisdictions Confronted by Short- and Long-Term Problems (GAO/HRD-94-1, Oct. 6, 1993).

of states and local governments we found several significant trends. Over the 1985 to 1991 period, spending pressures and constraints on raising revenues created a budget squeeze at all three levels of government. Jurisdictions we visited responded to these pressures with such actions as cutting program growth, raising additional revenues, or managing existing resources differently. In addition, overall budgetary surpluses declined at all three levels, contributing to a reduced flexibility for undertaking major new investment and responding to new policy initiatives or short-term emergencies. Nationwide, the declining state and local budget surpluses could compound the federal deficit's effects on the economy. That is, these declining surpluses combined with the large federal deficit could impede long-term growth nationwide.

In our work on longer term financial condition, we found that large disparities exist among states and large cities in the levels of services they can afford to finance, given average levels of taxation. This reflects differences in underlying economic factors, such as income levels and poverty rates. At the city level, these disparities have grown over the past two decades. Further, some large cities and counties had relatively weak capacities to finance services and also had operating deficits. These cities may find it increasingly difficult to overcome their budget deficits and meet the service needs of their residents.

In our view, these trends and differences in state and local conditions argue strongly that they be made an integral part of the reform deliberations now underway.

REVENUE AND SPENDING PRESSURES INCREASED AT ALL THREE LEVELS

Over the 1985 to 1991 period, state and local governments faced a challenge in responding to varied spending and revenue pressures. On the spending side, while almost all categories of programs were growing, some programs were growing especially rapidly, such as Medicaid at the state level, environment and housing at the city level, and public safety at the county level.

For example, state health care spending grew at an average annual rate of 7.6 percent from 1985 to 1991. Medical vendor payments, a close proxy for Medicaid, grew even faster at 9.5 percent over the same time period. The high growth rates for health care spending were especially important because health care formed a large share of state spending. Nationwide, total state health expenditures comprised, on average, 21 percent of general expenditures in 1991.

This growth in spending partly reflected officials' choices favoring some new or expanded services and programs, but it also reflected factors beyond the immediate control of state and local officials, such as rising health care costs or regional economic problems. While at the beginning of the period, revenue growth was enhanced by robust economic growth, later it was dampened by slowing economic growth and a recession. Between 1985 and 1988, real growth in Gross Domestic Product (GDP) was relatively strong,

averaging 3.3 percent a year. Beginning in 1989, though, economic growth slowed significantly. The real annual change in the nation's GDP dropped to 2.5 percent in 1989 and continued declining to a recessionary low of negative 1.2 percent in 1991. In many cases, revenue projections based on previous years' growth did not materialize.

In addition, jurisdictions faced declines in some types of federal aid and voter reluctance to increase taxes. Federal grants for capital projects and other general operations--excluding entitlement programs for individuals, such as Medicaid--declined from 1985 to 1991. Moreover, with state and local taxes plus other "own-source" receipts (as a percent of gross national product) approaching a 25-year high in the mid-1980s (see fig. 1), voters in many jurisdictions also showed a reluctance to increase taxes. Limitations on revenue-raising were enacted in several states, adding to the growing list of states with such restrictions.

STATE AND LOCAL RESPONSES

This difficult situation led jurisdictions at all levels, including those jurisdictions in stronger financial positions, to reevaluate their spending priorities and undertake actions to control program growth, cut some services, and increase revenues. Our analysis of national data and visits to 13 state and local governments underscored that jurisdictions, including those in stronger financial positions, undertook actions to alleviate budget pressures. Many of the actions involved managing existing financial resources through measures such as tapping into

contingency reserves, shifting monies from one budget fund to another, and restructuring debt. However, other actions involved efforts to raise revenues and control spending.

On the revenue side, the jurisdictions we visited undertook a variety of measures. These included actions to increase property, sales, and gas tax receipts and increase fees and charges. A notable example of the revenue actions occurred in Connecticut, which became the 41st state to enact a broad-based personal income tax. In addition, Tennessee imposed a one year, 1/2-percent sales tax increase in 1993. State officials indicated that the resulting 6 percent tax rate combined with optional local sales taxes made Tennessee's sales tax among the highest in the country.

State and local governments also instituted spending cuts that affected a variety of programs, government payrolls, and capital projects. For example, Connecticut cut funding to programs at the local level, including reducing the state's reimbursement rate to towns for General Assistance programs. California's budget cutting included health and welfare programs. Locally, Nashville-Davidson, Tennessee, officials reported reductions in nonmandated school health programs, which affected services to rural areas. Tight budget conditions in Fresno County, California, have reportedly resulted in overcrowded conditions in juvenile detention centers. Several localities we visited also laid off employees and took other personnel actions, such as pay and hiring freezes, salary reductions, and employee furloughs. Some local officials reported that staff reductions have affected the level and quality

of services. In fact, Detroit officials reported that as a result of Health Department layoffs, city-run health clinics turned away many uninsured patients.

We note that some of the actions officials described to us may simply postpone rather than eliminate costs. For example, several jurisdictions reduced or deferred capital spending--actions which may add to long-term capital costs. Officials in Nashville-Davidson told us that leaks in school buildings have become common since improvements have been deferred. Off-budget transactions, such as California's off-budget "loans" to education districts, may understate long-term program costs. Finally, in California and Colorado, officials told us of reductions in contributions to employee pension plans, a strategy which could result in increased liabilities for the future.

REDUCED SHORT-TERM FLEXIBILITY

In spite of these budget adjustment actions, spending continued to grow faster than revenues over the 1985 to 1991 period, bringing year-end budget surpluses down. For each of the three levels of government, operating surpluses (excluding retirement and other insurance trust funds and direct capital spending) fell from a peak of about 6 to 9 percent of expenditures in the mid-1980s to between 1 and 3 percent by 1991 (see fig. 2).²

²Our measure of operating surplus or deficit is not the same as the general fund balance reported in individual jurisdictions' budget or financial reports. Our measure uses Census data and concepts, which define a governmental entity as the parent government plus its dependent agencies and enterprises such as water utilities and airports, and which standardize the financial transactions of governments into comparable categories. We exclude only insurance

With lower surpluses to carry forward as "budget cushions," jurisdictions experienced a reduced flexibility for increasing the funding of existing services or undertaking major new spending initiatives. However, other indicators of budgetary condition did not show similar deterioration. Cash and security holdings available to each of the three levels of government generally rose slightly or remained relatively constant over the 1985 to 1991 period. Furthermore, between 1985 and 1991, levels of both short-term and long-term governmental debt outstanding were generally stable or decreasing. Finally, for the states, largest cities, and largest counties, the number of bond rating increases and decreases were roughly the same, suggesting that the financial markets did not perceive a substantial deterioration in the condition of these governments.

However, many jurisdictions--including New Jersey, Detroit, Los Angeles County, and others widely reported on by the media--experienced significant changes. Many incurred budget deficits, and some also experienced decreases in their levels of cash and security holdings and increases in their short- and long-term debt. Of the 50 states, 56 large cities, and 77 large counties we

trust funds (except annual contributions to such accounts) and capital accounts in order to better reflect the current costs of state and local government transactions. Being more inclusive, our measure facilitates comparisons across jurisdictions. Such comparisons are problematic using general fund concepts, because general funds vary widely in the percentage of governmental spending covered--for example, from 21 to 74 percent at the state level, according to the Congressional Research Service. A 1991 survey publication of the National Governors' Association and National Association of State Budget Officers reports that states' general funds account for only about half of total state spending.

analyzed, 8 states (16 percent), 16 cities (29 percent) and 27 counties (35 percent) experienced deficits when averaged over the 3-year period between 1989 and 1991. We note that in most of these jurisdictions, however, the deficits were under 5 percent of expenditures. Moreover, the jurisdictions that experienced operating deficits were economically diverse, including both wealthier and poorer ones. A variety of factors, including a jurisdiction's policy choices, can affect its short-term budget condition.

LONGER TERM PROBLEMS IN CAPACITIES TO FINANCE SERVICES

These budget trends may improve in the short-term as the economy improves, or as elected officials adjust their spending and taxing priorities. However, despite such budgetary improvements, many poorer jurisdictions--that is, those with relatively high poverty levels and low incomes--face a more fundamental, longer-term problem. These jurisdictions have less capacity to finance their police, fire, and other services at average levels because of their relatively low tax bases. The best example of this is seen in the older central cities that have experienced industrial base deterioration and middle-class flight to the suburbs, leaving high concentrations of people in poverty or with low personal incomes.

In this regard, we found a significant trend affecting large cities. Over the past two decades, the poorer cities experienced a deterioration in the levels of basic services they could afford while the better-off cities improved. Residents of the poorer jurisdictions, who can least afford it, would have had to shoulder

higher tax burdens than residents of better-off cities to finance city services at comparable levels (see fig. 3). If the weakest cities had wanted to levy average tax burdens and finance services at average levels, they would have needed additional outside funds equal to an estimated 36 percent of their own tax revenues.

The improved status of the strongest cities was generally associated with a large growth in per capita income accompanied by a small rise in needs for public services. However, the weakest cities experienced low growth in per capita income compared to needs (see fig. 4).

While the gap among the nation's largest cities widened in terms of the services they could afford to provide, the gap between the nation's strongest and weakest states narrowed. Examining the various factors that affect capacities provides further insight into changes in disparities. Although the taxable resources for the weakest states remained stable, their poverty rates decreased during the years we studied.

We observed regional patterns in state capacity (see fig. 5). Specifically, the Plains and Southeast states experienced the greatest improvement in their fiscal capacities. The Plains states improved from 8 to 1 percentage points below the national average. Meanwhile, Southeast states improved from 17 to 6 percentage points below average. None of the regions experienced significant declines in capacities.

SOME CITIES HAVE SHORT- AND LONG-TERM PROBLEMS

Our study identified five large cities that faced not only a short-term problem of budget deficits, but also a long-term deterioration in the public services they can afford to provide. Such jurisdictions may have the most difficulty in overcoming their financial problems and meeting the service needs of their residents. Similarly, we identified four large counties that faced the same short- and long-term problems.

We note, though, considering all of the state, city, and county jurisdictions that we studied, there was not a strong relationship between a jurisdiction's fiscal capacity to finance services and its budgetary condition. At the city level, there was a weak relationship--city differences in fiscal strength explained only about 9 percent of differences in budget surpluses or deficits--while at the state and county levels, there was no statistically significant relationship. In other words, poorer and better-off jurisdictions generally managed their financial resources with similar results in terms of their surpluses or deficits, cash and securities holdings, and short- and long-term debt.

POLICY IMPLICATIONS

There are large disparities in the levels of services that states and cities can afford (i.e., fiscal capacity differences). Disparities at the city level are of particular concern to us for two reasons. Unless the trend is reversed, which could happen with strong economic growth in the poorer cities, residents of those

cities will be left further and further behind those of better-off communities in terms of receiving services at reasonable tax burdens.

Furthermore, the declines in budgetary surpluses at the state, county, and city levels, which have turned into deficits in some jurisdictions, are a disturbing trend. Unless reversed, it implies a decreasing flexibility at the state and local levels, at least in the short run, for undertaking major new investment programs and responding to emerging issues such as reforms to health care and welfare.

Finally, we note that the declining state and local budgetary surpluses may add to the federal deficit's effects in impeding stronger long-term growth in the U.S. economy. To the extent that this is the case, the "budget problem" as it affects the future of the nation's economy is not simply a federal deficit problem, but rather a general governmental problem in the federal system. Viewing the matter in this broader, total intergovernmental context could help federal officials better gauge the size of the overall problem and devise appropriate budget and economic growth strategies.

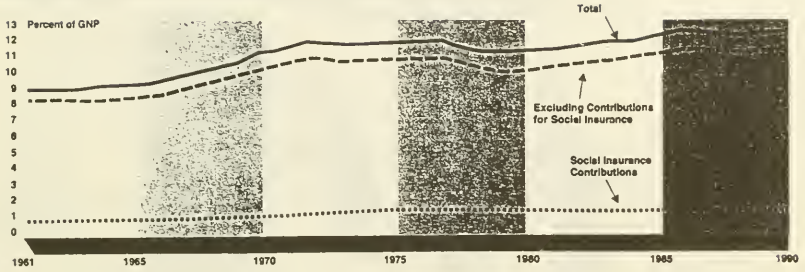
- - -

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you may have.

ATTACHMENT

ATTACHMENT

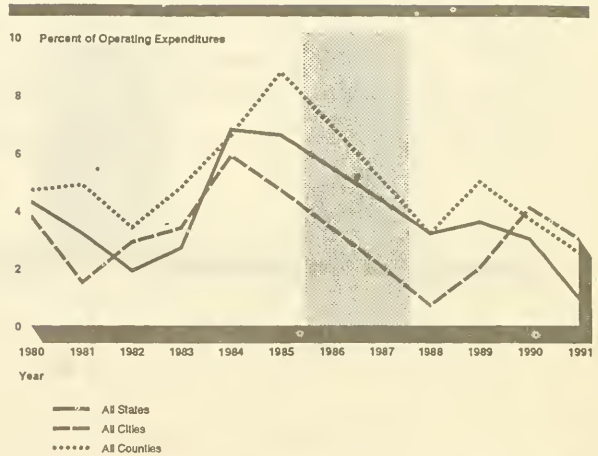
Figure 1: State-Local Own-Source Receipts



ATTACHMENT

ATTACHMENT

Figure 2: Operating Surplus/Deficit



Note: Shading indicates that data points for 1986 and 1987 are interpolated between those for 1985 and 1988.

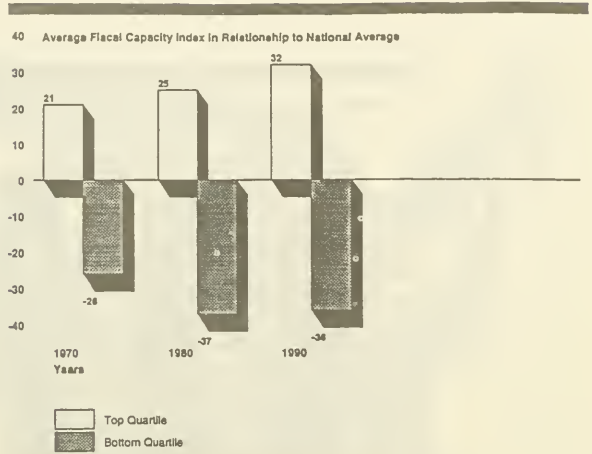
(Percent of Operating Expenditures)

Year	All States	All Cities	All Counties
1980	4.3	3.8	4.7
1981	3.2	1.5	4.9
1982	1.9	2.9	3.4
1983	2.7	3.4	4.8
1984	6.8	5.9	6.6
1985	6.6	4.7	8.8
1986	5.5	3.4	6.9
1987	4.3	2.0	5.1
1988	3.2	0.7	3.2
1989	3.6	2.0	5.0
1990	3.0	4.1	3.7
1991	0.9	3.0	2.5

ATTACHMENT

ATTACHMENT

Figure 3: City Fiscal Disparities in 1970, 1980, and 1990

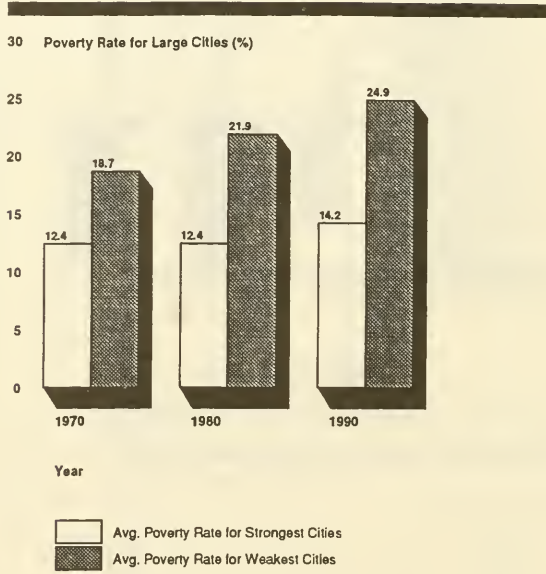


Analysis of Cities with Populations of 300,000 or More in 1990

ATTACHMENT

ATTACHMENT

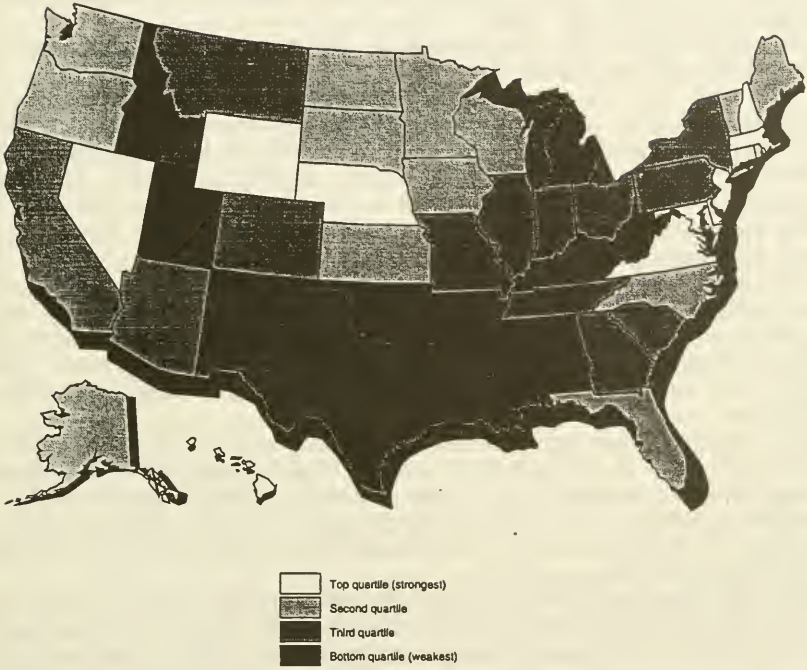
Figure 4: Poverty Rates of Large Cities in Top and Bottom Quartiles of Fiscal Capacity



ATTACHMENT

ATTACHMENT

Figure 5: State Fiscal Capacities in 1990



Mr. TOWNS. Thank you very much for your testimony and I think that it is very timely. Your report is at best a mixed bag for State and local governments. Some are holding their own according to your statement, while others are in desperate financial condition.

What are some of the policy choices that the cities and States in the worst financial conditions have had to make in order to survive and what were the consequences for their residents when they had to make these difficult choices?

Mr. McDONALD. Mr. Chairman, in the report I think we look at some of the things that took place in all of the jurisdictions.

You had cuts in a number of service programs. We cited instances from officials in numerous cities and counties of cuts in social service programs, rehabilitation programs, increasing the population density in corrections facilities, deferring capital expenditures for items such as road repair or the repair of school buildings.

So there are a number of varying circumstances, and the choices from community to community obviously differed.

Mr. TOWNS. And I agree with you. I think that when we look at the problem, you know, when you talked about in terms of one way to change it would probably have to be some large economic growth, but the problem is the areas that have the problems is generally not going to get that economic growth, and that is another problem.

So I guess, as we begin to look at this, we would have to try and find some kind of formula that would be able to sort of assist those areas that are really having great difficulty to try to, some way or another, create some kind of economic growth for them, and the Federal Government sort of participating in that process in order to make it happen.

Mr. McDONALD. Economic growth is somewhat of an illusive target. It is absolutely necessary, particularly in the areas that have deteriorated over time, like our large central cities. But some of those jurisdictions have very few options available to them of the kind, that over time, they have traditionally employed, such as powers to annex or to increase their tax bases. They also have difficult problems of attracting the economic base back into the cities, for example, once it has left.

These are not easy problems. I agree with you, sir.

Mr. TOWNS. Let me ask you this question then. You know, there has been a lot of talk about health care reform. I am sure you have heard about it.

Mr. McDONALD. Yes.

Mr. TOWNS. Based on your investigation, how difficult would it be for the States in the weakest financial condition to implement the administration's health care proposal?

Mr. McDONALD. I don't think there is an empirical answer to that yet. Some of the things that we have heard coming from various policy analysis groups around town, like the Urban Institute, would suggest that that analysis just isn't out there, that no one really knows for sure what the costs are going to be.

A substantial portion, as the majority leader alluded to this morning, of the cost containment provision in the health care proposal involves the ability to hold down costs for Medicaid in particular, and that is going to have a major impact on the States.

To the extent that we can hold Medicaid costs down, and only time will tell on that, we should in the long term have an ability to help State budgets because it is such a huge portion of their budgets.

In the short term, it is another program and another administrative structure that States are going to need to put in place in order to implement the health care proposal, at least the proposal that now is on the table from the administration. I don't think it is clear to any of us at this point how they are going to go about doing that or what the implications from State to State of the various mechanisms that they might employ would be.

Mr. TOWNS. But you do believe that we should know the cost before implementing it? I don't want to put you on the spot. Let me move on. I don't want to do that.

But let me ask you this: Does the fact that most jurisdictions are not operating at a deficit mean that the needs of the residents in the jurisdictions are being fully met? You know, we have certain local governments and some States were talking about that they do not have a deficit, but when you look at some of the things that they are doing to prevent from having a deficit, you almost wish they would have a deficit because of the kinds of things they are doing to be able to survive.

What are your comments on that in terms of as you were able to sort of look and see some of the things they are doing in order to prevent having a deficit?

Mr. McDONALD. When we looked at the budget coping actions of jurisdictions, we found coping actions on both the revenue and expenditure side in richer and poorer jurisdictions alike.

You could go to Fairfax County or Montgomery County, which are some of the richest jurisdictions in the Nation, and see budgetary coping actions that to the residents of those counties are calling for cuts in the levels of services that they receive.

So I think the jurisdictions are providing a level of coping that would imply that they are not meeting all of the needs or all of the demands of their residents.

What they decide to cut, the choices that an individual jurisdiction—a city in California, versus say the city of Detroit, which is in very tight fiscal constraints, would be different, but I think that the people that are most affected by those decisions, they would say that all of their needs are not necessarily being met.

Mr. TOWNS. You know, in reading your statement, I noticed that sometimes you lump cities and counties together as local jurisdictions. Do you see them in the same light or are there important differences in their financial situations?

I couldn't quite determine that in terms of reading your statement.

Mr. McDONALD. No, Mr. Chairman, I think there are some important differences. One in particular that comes to mind with the counties. As we were doing our analysis that jumped out at us, is the linkage between the counties and the States in a great number of instances jumped out at us.

The counties are heavily dependent on State aid. Some 33 percent, on average, of county revenues come from intergovernmental aid passed through from the States, and in some instances we saw,

it was as high as 60 percent of the county revenues that came from State aid.

As the States have been squeezed in their budgetary crunch, a number of them have cut State aid or reduced the growth in State aid and that has in turn squeezed the counties, which tend to be the jurisdiction of last resort dealing with the human service needs of the local population.

And the counties tend to have less revenue flexibility of their own to make up for cuts in State aid, in particular, but also to make up for cuts in Federal aid.

Mr. TOWNS. Thank you very much, and let me at this time yield to the ranking member of the subcommittee for any opening statement he might have or questions at this time, Congressman Schiff.

Mr. SCHIFF. Thank you, Mr. Chairman.

First, I want to say to you and the other members of the subcommittee, the witnesses, I apologize for being late but I had votes in the Judiciary Committee that I had to attend before I could come to this hearing.

I want to thank Congressman Mica for serving as ranking member during this hearing.

I have one question that I would like to get into, one area I would like to get into with Mr. McDonald, and that is, in terms of pressures financially on local governments, State governments and so forth, we have been hearing more and more about unfunded mandates from the State and local governments, and the Federal Government has engaged in quite a number of unfunded mandates found in a variety of bills, and in each one of them we can say they had a national purpose that we wanted to accomplish, but one after the other is causing State and local officials to come to me, and I believe to my colleagues in the Congress, and start saying, wait a minute, you keep piling these on us and not funding them. We find it difficult to comply and still perform our other basic services, and I wonder if that was—that aspect was looked at by the General Accounting Office in terms of compiling this report.

Mr. McDONALD. Certainly I think we, like you, as we talked with local officials, heard a lot of discussion about mandates and the impact of mandates on budgetary decisions at the State and local level.

We are also doing some separate work, not contained within this study, but specifically focused on mandates that is still ongoing at this point for Chairman Conyers. Congressman Condit has been involved with some discussions with us on that particular work as well.

What we have been hearing from the officials at State and local levels, I think, is relatively consistent, and that is, as Mr. Condit mentioned earlier this morning, no one really disagrees with the purpose for which a mandate might have been laid out. No one stands up and says, we really don't want clean drinking water or breathable air or access for the disabled, but there are generally four issues that come up in the mandate discussion that we hear.

In particular, with some of the environmental mandates, we have heard from local officials and our own work in reports that we have published from 1991 forward shows that some of the scientific evidence, particularly in the environmental area, is not conclusive on

the need for some of the things that are being done, that are being mandated at State and local level, either through legislation or regulation. So there is a question about the quality of the science in some of those.

Second, local governments view mandates as being intrusive. They force budgetary and policy agenda on local governments that are not subject to debate within the government themselves or with the local constituents, and tend to circumvent the local budget process or drive the local budget process.

In that regard, I think local governments are looking for really more flexibility, not in what they do as an overall outcome, but how they get there, and the ability to help with local priorities or put local priorities into context with the mandates.

The third thing we hear has to do with the flexibility of the Federal Government and a kind of one size fits all mentality. Local officials say that one size really doesn't fit all and that there are local circumstances that can and should be taken into account in the regulatory process or in the legislative process, and that more collaboration from State and local officials with the Federal Government on the front end of things would be deeply appreciated.

And then obviously the fourth one is the issue that you have raised and other Members of the committee have raised, and that is the costs, and I don't think it makes any particular difference which set of numbers you use.

They are all large and you could take a conservative approach or a very expansive approach on the cost of what constitutes a "mandate." But the bottom line is that they cost a lot.

One of the things that I think our report points out is that there is not much flexibility in the system at this point in time to accommodate costs, either at the Federal level, State, or local levels.

Mr. SCHIFF. We would like to ask about just one more thing. I don't know, since this study began 2 years ago as I understand it, I don't know that you would have gotten into this, but part of the outline we have of the administration's health care plan, and I want to stress all we have now is an outline, there is no bill that has been introduced into the Congress, so when people say they are for it or against it, I wonder what it is they are evaluating since they don't have a bill yet in front of them.

But we do have broad outlines certainly and one of those broad outlines is that, if I understand it correctly, most people will be compelled to join regional alliances for the collective purchasing of health care and that the regional alliances will be set up by State governments, that no regional alliance is to be therefore larger than the State, and my question is, I wonder if you took that particular question up with the State governments, in view of the fact that most States, I think, don't have any experience in setting up health care planning for all of their citizens.

It has never been their role, even though I understand there would be a new Federal agency to oversee them. I wonder if you did bring this up and if you heard any trepidation from the States where they said, we are going to be in charge of what in the future?

Maybe you didn't get to that at this point, but I would like to know if you did.

Mr. McDONALD. No. The short answer is no, we didn't. The proposal from the administration—for two reasons. Our field work was completed before that time.

Mr. SCHIFF. I thank you and I yield back, Mr. Chairman.

Mr. TOWNS. Thank you very much, Congressman Schiff.

I now yield to Congressman Mica.

Mr. MICA. I haven't had a great deal of time to look at this report, but one of the things that I was surprised you didn't do is to put some additional language in here that relates to imposition of Federal and State mandates.

Did I miss that or is there something that ties this to a figure of what it costs?

Mr. McDONALD. No, there is nothing in the report that would tie it to a figure of what it costs. I don't think there is an authoritative figure of what specific mandates would cost on a national basis.

Mr. MICA. You are saying it is one of the major issues that was raised by these local governments; is that correct?

Mr. McDONALD. It is an issue that we heard at every stop along the way as we were doing our case work.

Mr. MICA. The other thing I noticed too in your report, you do, I guess it was page 69, there is a chart about the intergovernmental aid and you do talk about the decline in assistance to local governments.

Was that—I didn't see any figures as to how big an impact that has had. I spoke earlier about, you know, the Federal Government giveth and the Federal Government taketh away kind of routine.

Did you have any facts or statistics on how much that has declined, say, over a 10-year period or 9-year period or the period of the study?

Mr. McDONALD. In fact, there is—this report that we were releasing today, that the majority leader released today, was the second of two that we had done under his request.

The first one was done last year in March 1992, and it looked at over a 30-year period. And there is some specific information in it on intergovernmental revenues or aid from the Federal Government, and what that decline has been. It also separates out that aid in the context of entitlement programs or payments to individuals, which have been going up consistently throughout the period. Of course that is being driven by Medicaid as a major driver, but AFDC is another.

Mr. MICA. That would be one of the bigger—

Mr. McDONALD. That is a fairly large chunk of Federal payments that have been going to State and local governments. What has gone down was obviously the repeal of general revenue sharing in the mid-1980's and then there had been declines in grants for capital projects.

There have been declines in general assistance kinds of programs.

Mr. MICA. And your report also discloses that State revenues and aid to cities and counties is the biggest source of aid. That is correct, and I guess counties are getting 33 percent or something of—they are deriving 33, cities, 21 percent, something like that.

Mr. McDONALD. Yes.

Mr. MICA. My question is, did you look at how much of that is passed through? Is that Federal money also that is going to States and then passed through, do you know?

Mr. McDONALD. No. We separated out the Federal aid that was ultimately ending up—

Mr. MICA. That is pure—

Mr. McDONALD. That is pure State aid. A substantial portion of that I think you will find is in education and social services, State general assistance payments, things of that sort.

Mr. MICA. Well, your report does, you know, put into writing some of the things we already knew that the Northeast and some other areas are having more difficult times.

The core cities are having a very difficult time. The areas of suburban growth have some increased revenues that we have capitated tax mandates by the public and mandates. It doesn't have a lot of answers though for the future.

Did you have any recommendations or anything that you think the committee should pay particular attention to that—or focus in on that might assist us or things to look out for, general direction to the policymakers here?

Mr. McDONALD. Well, I think the general overall point that I ended on is one that I would like to emphasize, and that is that I think we need to think more in terms of the total financial impact of government at all levels, and not simply a Federal budget or a State budget or local budgets when we think about the budgetary impact of things we do.

I think increasingly we need to think about the total intergovernmental impact of the policies that are enacted and the programs that we promulgate.

In terms of very specific policies for economic stimulus or things of that sort, we left that to you in the Congress.

Mr. MICA. Thank you, Mr. McDonald. And, Mr. Chairman, I yield back.

Mr. TOWNS. Thank you very much, Congressman Mica.

I now yield to Congressman Condit.

Mr. CONDIT. Thank you, Mr. Chairman. You made reference, Mr. McDonald, a few minutes ago about the full committee chairman, Mr. Conyers', involvement in this issue and he has been involved and we appreciate that very much.

It is my understanding that the General Accounting Office has nearly completed a request of Mr. Conyers on a second study which focuses specifically on unfunded Federal mandates. Are you aware of this study?

Mr. McDONALD. That is correct, yes.

Mr. CONDIT. Do you have any knowledge when this study is supposed to come out?

Mr. McDONALD. I would hope within the next several weeks. We are in the process of reviewing some early drafts and then we have got the mechanical process of printing and issuing a report.

Mr. CONDIT. We await anxiously for the second report, so keep us posted on that.

Page 9 of the reports states that officials at all three levels, cited the budget effects of the Federal or State mandates. City and county officials were particularly concerned about the considerable cost

of mandates to improve environmental quality, and I know that you have touched on some of this, but would you please expand on this?

Did city and county officials provide you with cost estimates of the mandates? You didn't include it in the report, but did they offer that to you?

Mr. McDONALD. As a general rule, no. We are aware from some of the specific mandate work we have done in the other study that you referenced of some cost studies that have been done by individual jurisdictions.

The one that gets the most notoriety lately is the one from Columbus, OH and that has been replicated, or is replicated in a number of different places. We did not independently seek out specific costs and most of the numbers that came to us in the course of doing the work were more anecdotal.

I think the issue on costs is not how fine a point we put on what the actual number is, but more the point that I think everyone is in agreement that they are large.

Mr. CONDIT. Did they refer to other mandates besides environmental?

Mr. McDONALD. Environmental mandates seemed to get the most attention from officials at all of the levels that we talked with. We began to notice, as people are grappling with the implementation of the Americans with Disabilities Act, concerns from local officials, particularly school officials, about the costs of architectural changes to meet the requirements of the act, and about the timeframe for implementation and concern that they may not be able to make all of the necessary physical changes given shrinking capital budgets in the time allotted under the act.

Mr. CONDIT. You sort of mentioned this, the cost factor of mandates impacting local budgets.

Can you give us any examples and could you share those examples with us this morning to what extent they were impacting local budgets?

Mr. McDONALD. Not with information that I have that I would like to quote this morning. We do have some information as a course of doing the other study that I would be happy to provide to you and submit for the record, if you want.

[The information follows:]



United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

December 6, 1993

The Honorable Edolphus Towns
Chairman, Subcommittee on Human Resources
and Intergovernmental Relations
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

Enclosed for inclusion in the record of the Subcommittee's October 6, 1993 hearing "Can State and Local Governments Afford to Implement Health Care and Welfare Reform?" are estimates of federal mandate costs for three local jurisdictions. These examples should be inserted at page 54 of the hearing transcript.

If you or your staff have questions regarding this material, please call me at (202) 512-6805.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Gregory J. McDonald".

Gregory J. McDonald
Director of Operations

Enclosure

COST STUDIES OF UNFUNDED MANDATES

The cities of Anchorage, Alaska, Columbus, Ohio, and Chicago, Illinois, have each prepared, or had prepared for them, studies estimating their costs from unfunded federal and state mandates. These studies each employed different methodologies and assumptions and covered different time periods. Consequently, the results are not comparable. Moreover, GAO did not independently verify the data presented. The following information summarizes these three studies.

Study #1:

Title: PAYING FOR FEDERAL ENVIRONMENTAL MANDATES: A LOOMING CRISIS FOR CITIES AND COUNTIES prepared by the Municipality of Anchorage, Alaska (January 1993).

Study Description: This study covered 10 major federal environmental mandates administered by the Municipality of Anchorage to determine their long-range impacts on the municipal budget. The budget categories included were personnel, supplies, other services, equipment and capital expense for each utility and municipal department. State and federally-funded projects and personnel were not included, although municipal matching funds for those projects were.

Study Results: Estimated costs of federal environmental regulations to Anchorage totaled \$429,936,737 for the period 1991-2000, inflation-adjusted at the prevailing 7 percent rate for environmental projects. Ninety-one percent of the costs involved three environmental acts. The most expensive program, Clean Water Act, accounted for 36 percent of the costs. The Clean Air Act and Resource Conservation and Recovery Act accounted for 34 percent and 21 percent of costs respectively.

Estimated Costs of Federal Environmental Mandates to Anchorage, Alaska	
Mandate Legislation	Estimated Cost for Period 1991-2000
Clean Water Act/Water Quality Act	\$139,621,400
Clean Air Act	\$133,136,887
Resource Conservation & Recovery Act	\$ 82,326,842
Coastal Zone Management Act	\$ 1,119,328
Endangered Species Act	\$ 581,042
Safe Drinking Water Act	\$ 7,238,136
Toxic Substances Control Act	\$ 12,690,329
Comprehensive Environmental Response, Compensation & Liability Act	\$ 12,501,585
National Environmental Policy Act	\$ 2,433,120
MUNICIPAL ADMINISTRATIVE DEPARTMENT COSTS	\$ 38,288,068
TOTAL	\$429,936,737

Study #2:

Title: ENVIRONMENTAL LEGISLATION: THE INCREASING COSTS OF REGULATORY COMPLIANCE TO THE CITY OF COLUMBUS prepared by Environmental Law Review Committee (May 13, 1991).

Study Description: This study covered the estimated cost impact of 14 federal and state environmental mandates to the City of Columbus, Ohio. Of the 14 mandates 7 were federal/state mandates; 3 were federal only; and 4 were state only.

Study Results: Estimated costs for complying with environmental regulations over the ten year period 1991-2000, were over \$1 billion (in 1991) dollars. With an average annual inflation rate of 4 percent, the estimated costs were over \$1.3 billion.

Estimated Costs of Federal & State Environmental Mandates to Columbus, Ohio	
Mandate Legislation	Estimated Cost for Period 1991-2000
Asbestos Hazard Emergency Response Act	\$ 10,804,150
Clean Air Act	\$ 5,420,694
Clean Water Act/Water Quality Act	\$775,046,972
Explosive Gas Monitoring	\$ 444,000
Federal Insecticide, Fungicide and Rodenticide Act	\$ 65,500
Infectious Waste	\$ 50,000
Occupational Health and Safety Administration Act	\$ 9,790,480
Resource Conservation & Recovery Act	\$ 19,276,792
Safe Drinking Water Act	\$104,332,917
Superfund Amendments and Reauthorization Act Title III	\$ 97,000
Solid Waste Disposal	\$159,209,007
Toxic Substances Control Act	\$ 910,000
Underground Storage Tanks	\$ 3,037,368
Federal Rivers and Harbors Act	\$ 0
TOTAL	\$1,088,484,880

Study #3

Title: PUTTING FEDERALISM TO WORK FOR AMERICA: Tackling the Problems of Unfunded Mandates and Burdensome Regulations prepared by the City of Chicago and Roosevelt University Institute for Metropolitan Affairs (November 19, 1992).

Study Description: This study sought to identify the causes and magnitude of the problems faced by cities and states weighed down by unfunded mandates and burdensome regulations, and to propose practical, principled solutions. The study estimated the cost of 11 federal and state environmental mandates on the City of Chicago for the period 1992 through 1995.

Study Results: Estimated costs for complying with the federal and state environmental regulations over the four year period 1992-1995, were over \$319 million. The report says that adjusted for inflation, in 1993, Chicago received less than half of what it received in federal aid in 1980--accounting for 14 percent of the City's budget in 1993 versus 29 percent in 1980.

Estimated Costs of Federal & State Environmental Mandates to Chicago, Illinois	
Mandate Legislation	Estimated Cost for Period 1992-1995
Resource Conservation & Recovery Act	\$159,788,344
Underground Storage Tanks	\$ 4,480,020
Clean Water Act/Water Quality Act	\$ 8,493
Clean Air Act	\$138,241,223
Safe Drinking Water Act	\$ 10,580,038
Infectious Waste	\$ 4,246
Asbestos Hazard Emergency Response Act	\$ 21,232
Federal Insecticide, Fungicide and Rodenticide Act	\$ 95,545
Toxic Substances Control Act	\$ 21,232
National Emissions Standards for Hazardous Air Pollution	\$ 6,000,000
Emergency Planning and Community Right to Know Act	\$ 0
TOTAL	\$319,240,373

Mr. CONDIT. OK. In your report you stated on page 7 that the federalism policy of the 1980's and the Federal budgetary entrenchment were accompanied by increased regulatory requirements and less Federal aid to certain general operations of government.

Can you please be more specific in that statement?

Mr. McDONALD. When you talk about Federal aid to the general operations of government and the decline that started in the 1960's, you are generally referring to general revenue sharing and the cessation of general revenue sharing to local governments starting in 1986, I believe.

Mr. CONDIT. On page 9 of your report you noted that deteriorating conditions in States such as California, due to the recession, defense cuts, or to more recent events are not reflected in your analysis.

Would these conditions affect short-term and long-term financial conditions?

Mr. McDONALD. In particular with California, I think they affect both. When we say it is not reflected in the analysis, it is not reflected in the analysis we did with census data because it isn't that current.

We spent quite a bit of time doing study work in California using data from other sources, from State and local officials in the State, from some of the studies that have been done by the National Association of State Budget Officers and others, and we see, particularly with California, a continuing deterioration in the more recent years.

California, as we allude to in the report, has also been affected by loss of jobs, as you are aware, out of State and then hit again with some of the defense cutbacks, particularly in the southern part of the State. Southern California is very heavily dependent on—or a very heavy presence of defense contractors.

Mr. CONDIT. Were there cities and counties and States that were cutting services while at the same time experiencing a population increase?

Mr. McDONALD. Yes. I don't have a population increase numbers with me, but I think the short answer to your question is yes.

Mr. CONDIT. In your opinion and based on your work so far, do you believe that unfunded Federal mandates are a significant strain on local and State budgets?

I know I am going to get another shot at you in a few weeks, or someone, but do you have a response to that?

Mr. McDONALD. I don't think there is any question that there is a strain on the budgets at the State and local governments.

Mr. CONDIT. Mr. McDonald, thank you very much.

Mr. Chairman, thank you for allowing me to participate.

Mr. TOWNS. Thank you. Thank you very much.

Let me also thank you too, Mr. McDonald, and I think that one thing you could sort of look to see in terms of what happened before the end of revenue sharing as you continue to look at this and what happened after we eliminated revenue sharing, just to see in terms of—how much in terms of the dollars were used at that time to deal with mandates, and I think I would like to just take a look at that in terms of how much was actually used for revenue sharing to deal with mandates.

Mr. McDONALD. OK. I know from previous revenue sharing work that I did in State and local government a number of years ago, Mr. Chairman, that sometimes it is very difficult to track where revenue sharing dollars were actually having impact in the budgets of State and local governments.

The term we used for it at that time was fungible. And basically those dollars, when they—because they had very few strings attached to them and left great discretion to the—using government as to where they would put them, were not—it was not easy to track the actual impact of dollars that were coming from the Federal Government for revenue sharing because the jurisdiction might use it for one particular type of project that that would then free up local money to do something else with.

There are some jurisdictions that they very clearly and separately track their revenue sharing dollars, but as a general rule, that wasn't the case across the country, so it may be difficult to give you a precise answer to a before and after comparison of the impact of revenue sharing on mandates.

Mr. TOWNS. Well, thank you very much, Mr. McDonald, for your testimony and we will keep the record open waiting for the additional information that you have indicated that you would send.

Mr. McDONALD. Thank you, Mr. Chairman.

Mr. TOWNS. Thank you very much for your testimony.

Our final witnesses today will be Raymond Scheppach, executive director of the National Governors' Association, Barbara Todd, president of the National Association of Counties, and Frank Shafroth, director of the National League of Cities.

It is the custom of this committee to swear in witnesses. If you would stand and raise your right hand.

[Witnesses sworn.]

Mr. TOWNS. I would like to welcome you to the subcommittee. We have your prepared statement which, without objection, will be included in the record.

Mr. Scheppach, we will begin with you. Please proceed and summarize so we have time so the Members will have an opportunity to ask specific questions.

Mr. Scheppach.

STATEMENT OF RAYMOND C. SCHEPPACH, EXECUTIVE DIRECTOR, NATIONAL GOVERNORS' ASSOCIATION

Mr. SCHEPPACH. Thank you, Mr. Chairman. I am pleased to be here this morning and I will briefly summarize my statement.

First, I think it is important to look back at the period of the 1980's. I guess we would call that time the glorious 1980's. Expenditure growth in the States actually grew over that period about 8 percent per year over the entire period and that even includes a major recession in 1983.

There was great stability and little budget cutting and few tax increases, and States really had the ability to do a lot of innovation and a lot of new programs during that period.

Obviously the slowdown started in 1990, 1991, not only did we have a slowdown in revenues, but we had explosive growth in the Medicaid area. Medicaid is now over the last several years averag-

ing well over 20 percent. In, I think, 1990 and 1991, the average was probably close to 30 percent per year.

This has caused significant cutbacks in other program areas, and actually it caused States to increase tax revenues by \$25 billion over the 1991, 1992 period. And that is one of the reasons that you are seeing this resentment of tax increases. Because revenues fell off so quickly during this period and you had such a high growth in Medicaid that they really had to raise taxes fairly significantly.

This has set off an inward look at State government right now in terms of efficiency and privatization, many of the things that the Vice President has been doing in the National Performance Review.

If we shift and we look forward in terms of what is going to happen during the decade of the 1990's, I am afraid that the picture there is also not very good. I look basically at three components.

First, economic growth. I think most estimates now indicate that economic growth over the remainder of this decade will be somewhat less than what we have experienced over the postwar period.

Second, however, States now have what I would call a structural deficit on the spending side, much like you at the Federal Government has, and it is largely because entitlements have now increased to be a significant share of State spending.

What do I mean by structural deficit? Basically if you don't take any action, State spending is going to continue to grow much more rapidly than any measure of gross State product or personal income in an individual State.

Second, we also have a problem on the revenue side now that essentially, if we do nothing, no policy changes, revenues are going to grow more slowly the rest of the decade than any measure of gross State product, and the reasons for that basically is that the State tax systems, systems that we have in place now are State tax systems that were developed essentially for the economies of the 1930's and 1940's which meant a manufacturing economy.

We don't have tax systems in place that can handle the international marketplace, the rapid change in technology, the huge growth in services.

If you look at State taxes, you will find that there are a number of problems. First, services are exempt from taxes in a lot of States and that is where all the growth is. Second, a smaller share of personal income is taxable because of the huge increases in Social Security and other transfer payments.

Third, the Federal Government has put restraints at times on State taxes. Fourth, corporations have become much more sophisticated where they take their corporate profits. They now take them overseas or in States that have no or low corporate profits. States have also moved toward more reliance on gasoline taxes and fees, those particular taxes that are not increasing like personal income taxes over time. And fifth, States have collapsed their tax brackets over time so they are probably slightly less progressive than they were, but if you add all of these up, what you find is that States are forced to increase taxes just to keep taxes the same share of a gross State product.

What are some areas that may affect State tax revenues in the fiscal situation? I basically want to point to four very, very quickly. First, I might answer a couple of the questions on health care. You

need to be aware that there is an awful lot of State capacity in health care.

The State of Hawaii has had universal care since the middle 1970's. They have very good health output or measures. They have cost rate of increase much slower than the rest of the Nation, and in fact their average cost is considerably less, so they have had universal care for some period.

Second, the States of Oregon, Washington, Florida, Minnesota, have already enacted comprehensive health care reform. They cannot implement it basically because of restrictions on ERISA and restrictions in Medicaid. If it weren't for these Federal restrictions, we would probably now at this time have comprehensive health care in a good six to eight States.

I think that the administration must be commended because we have had a team working with them on health care on the Federal-State partnership really over the past 6 months, and I think when you see that the bill comes up in several weeks, that a lot of that detail on State flexibility is already incorporated into the plan and so there is a lot of comfort with the components about how the alliances would work, what the oversight is of the accountable health plans, the transition in terms of when States trigger onto the system.

In terms of the cost, I know there is a lot of concern on that, and all I can say is that we are evaluating that in a very detailed way and will probably have some State-by-State estimates in the next month to 2 months, but I would say at least the administration's concept is to in fact hold States neutral with respect to health care, that the additional cost for low income individuals and small businesses is supposed to be picked up by the Federal Government.

The other issues that I think are significant or a potential impact is school equity is an important issue that States are wrestling with. You have got referendum restrictions that are limiting local taxes and to some extent State taxes, and I think recently this whole explosion of violence and crime, particularly with juveniles, is a major issue.

I have also listed a number of areas in here where I think the Congress can help support on the National Performance Review, mandate relief. I would say that we have had now two States that have done comprehensive evaluations of mandates, the State of Tennessee and Ohio, and we can make those available.

There is also doing a cost benefit analysis, particularly in the environmental area would be helpful, and just consultation in general would be very important to building a stronger State/Federal partnership.

I will stop, Mr. Chairman and be happy to answer any questions.

Mr. TOWNS. Thank you very much.

[The prepared statement of Mr. Scheppach follows:]

T E S T I M O N Y



**Statement of
Raymond C. Scheppach
Executive Director
National Governors' Association**

before the

**Committee on Government Operations
Subcommittee on Human Resources and Intergovernmental Relations
U.S. House of Representatives**

on

State Fiscal Conditions

October 6, 1993

NATIONAL GOVERNORS' ASSOCIATION
Hall of the States • 444 North Capitol Street • Washington, DC 20001-1572 • (202) 624-5300

Mr. Chairman, I am pleased to be with you this morning to present my views on the fiscal condition of the states. To assist in the understanding of this issue I would like to summarize the following issues.

1. The state fiscal situation during the decade of the 1980s.
2. The slowdown during the 1990-1993 period.
3. The fiscal outlook for states during the 1990s.
4. Critical issues that may affect state finances.
5. Some recommended ways the federal government can help states.

The Decade of the 1980s

The decade of the 1980s was a period of unusual revenue and spending growth for state governments. State spending increased an average 8.0 percent per year for the entire period, even when the deep recession of 1983, with its 0.7 percent decline, is included. This 8.0 percent increase in nominal dollars translated into a 1.9 percent average increase in real terms. This allowed states to have an end-of-year balance that averaged about 4.6 percent each year, which was a nice cushion against unforeseen problems. Such revenue and expenditure increases allowed states to assume additional domestic responsibilities from both the federal and local governments, without undue stress. It also allowed states to experiment with new programs in health care, job training, economic development, education, corrections, and the environment. Overall, this was a period of unusual revenue and spending growth for states. There was great stability, with little budget cutting and few tax increases.

The Slowdown Begins

As the economy went into recession in 1990-1991, revenue growth in most states fell considerably. At the same time, Medicaid spending exploded with growth in excess of 20

percent per year for several years. In addition, health care costs for state government workers and prison construction began to grow rapidly at the same time. This combination of revenue shortfalls and expenses in excess of inflation caused major fiscal problems for states. Not only have states had to make major cuts in education, but in most other areas of state government. Given that states were unable to cut other programs fast enough to offset the growth in Medicaid, states had to raise taxes by more than \$25 billion during the 1991-1992 period. This is more than all the tax increases over the previous decade.

This difficult period set off a major reevaluation of state government in most states. This new evaluation was brought on not only by the difficult fiscal condition, but also by the increasing awareness that citizens were becoming more critical and detached from government at all levels and were adamantly opposed to new taxes. Essentially, the slow economic growth and continuing budget demands have led many states to evaluate the types of services they deliver, the methods of service delivery, workforce policies, and budgeting methods and authority. The public's demand for improved government services and its resistance to further tax increases have put enormous pressure on government to do more with less and has given rise to citizen ballot initiatives. In response to these demands, states are making fundamental changes in the way state government is organized and managed and the way services are delivered. In short, states are trying to raise quality, increase efficiency, and reduce costs.

The Fiscal Outlook for the Remainder of the Decade

During the latter part of the 1980s and the early 1990s, a number of structural changes began to take place that make the fiscal outlook for the remainder of this decade very difficult for state government. The following trends are important to note.

- First, economic growth in the United States for the rest of the decade will be low by historical standards.
- Second, there is now a structural deficit on the spending side of the equation as spending will grow relatively faster than the Gross State Product of most states.
- Third, there is now a structural deficit on the revenue side as revenues will grow more slowly than Gross State Product for most states.

The sum total of these trends is that states will be forced to cut budgets and/or raise taxes each year to maintain balanced budgets. This means there will be no additional revenues to assume more domestic responsibilities from either the federal government or local governments. Until concerted action is taken to eliminate the structural deficits, states will continue to struggle.

Slower Economic Growth. While it is difficult to project the rate of real economic growth in the 1990s, there is a consensus that it will range from 2.0 to 2.5 percent per year, compared to about 3 percent over the post-World War II period. There are many reasons for slower growth, including the continuing large federal government deficit, the low level of public investment in infrastructure and science and technology, and the low level of private investment in plants and equipment. It also is due to increased international competition and the deterioration in the education and skill level of the United States labor force. In addition, the huge increase in the number of women into the labor force, which has been a major contributor to increased income over the last two decades, has now slowed. The worldwide economic outlook also continues at a slow pace. Average growth rates in industrial countries was only 1.1 percent in 1993 and is projected to be only 2.2 percent in 1994. For all of these reasons, economic growth will be slow.

Structural Spending Deficit. Like the federal government, states now face a situation where spending is growing substantially faster than Gross State Product. The primary culprit is Medicaid, which has been growing in excess of 20 percent per year and now represents about 17 percent of state spending. Medicaid spending now accounts for substantially more than is spent on higher education and in a few years it will approach the 21 percent states spend on elementary and secondary education. Medicaid grew 31 percent in 1992, 29 percent in 1991, and it is projected to grow 16 percent in 1993. Medicaid spending grew from 10 percent of state budgets in 1987 to 17 percent in 1992. Since Medicaid is a federal entitlement program that is very inflexible, states have little ability to control spending. There also are substantial fiscal pressures from criminal justice, particularly prison overcrowding. Finally, the elementary and secondary school population is beginning to grow again. Suffice it to say that spending pressures will continue as a larger and larger share of spending goes to entitlements, such as Medicaid and AFDC, which are uncontrollable.

Structural Revenue Deficit. While many policymakers are aware of the spending deficit, few are aware of the structural revenue deficit that is just as serious. Essentially, states have tax systems that were developed from manufacturing economies in the 1930s and 1940s not the service-oriented, high technology, international economy of the 1990s. The reasons for the deterioration in the tax base are as follows.

1. Most services are exempt from state sales taxes, so states lose revenue as services become a larger percentage of spending. In the 1930s, services accounted for one-third of Gross National Product; now they are 52 percent.
2. A smaller share of income is subject to state personal income taxes because a growing share of personal income is derived from tax-favored sources of transfer payments, such as Social Security and Aid to Families with Dependent Children.

3. The federal government has extended its reach into state taxing areas, which has affected state sales and corporate income tax policy.
4. Corporations have become much more sophisticated in taking profits overseas or in states that have no or low corporate profits taxes.
5. States have increased reliance on gasoline taxes, as well as special taxes and fees that generally do not grow over time.
6. States have collapsed their income tax brackets and therefore individuals do not move up into higher tax brackets as readily.

Overall, state tax systems need substantial reform in order to become more responsive, effective, and equitable.

Critical Issues that May Affect State Finances

While the underlying economic trends point toward a difficult financial outlook for states, a number of other critical exogenous forces could have a major impact.

1. Health Care Reform. While we have not completed our assessment of the financial impact of the Clinton health care plan on state government, it is expected to be neutral. However, states will have to make substantial investments in new capacity to administer and oversee major reform under any plan. State long-term care expenses will continue to increase.
2. School Equity. A significant number of states are now under court order to equalize school spending. Whether or not this is appropriate will be debated in individual states. However, in most states this will mean additional funds to low-income areas without reductions in other areas. This, coupled with increases in school enrollment, may be a major new pressure on state finances.

3. Referendum Restrictions. The trend toward capping local taxes, particularly property taxes, and shifting more education and other responsibilities to states may well continue. This has occurred in Oregon and Michigan and is being discussed in other states.
4. Violence and Crime. Prison overcrowding has continued to be a major problem during the 1990's. However, we seem to be on the verge of major new state initiatives to deal with youth offenders. There will be significant new costs associated with these initiatives in policing, enforcement, courts, treatment, and corrections.

How Congress Can Help

All of us in public service know that the buck stops with the taxpayer. All elected officials now feel the public pressure against credit card government. We must now take our joint responsibility in all program areas seriously and build a new partnership between federal, state, and local governments to deliver our services in the quickest and most efficient ways with the same or less funds.

Administration Initiatives. This Administration is making some very significant proposals that support a new partnership. There are fewer new mandates than before. For example, the fiscal 1994 budget eliminated a costly new Medicaid mandate for personal services that saves us both billions over five years.

The Administration is consulting extensively with states as they design joint federal-state programs for health care reform, welfare reform, and education reform. The President has also issued an Executive Order on Regulatory Review that calls for a major new partnership with state and local governments through early and prior consultation on proposed laws and regulations, cost-benefit analysis, and paperwork reduction.

Support the Vice President's Report on Re-inventing Government (NPR). This report has a score of proposals that are designed to deliver services better, faster, and with less costs. The National Governors' Association strongly supports the NPR proposals on state-federal issues, and urges Congress to quickly enact the statutory changes needed to make them work. Agencies should be given the authority to waive statutory provisions that would improve program goals when coordinated with similar or supportive programs such as Head Start, compensatory education, child health and nutrition, and the scores of manpower training programs. The administration needs additional authority to make the empowerment and enterprise zone legislation effective. States and communities need to be given authority to consolidate small categorical grants of less than \$10 million and the opportunity to request waivers for larger grant programs. More block grants are needed.

Congress should amend the Administrative Procedures Act and the Federal Advisory Committee Act to enhance the President's Executive Orders on regulatory relief, customer service, mandate relief, and federalism. Both need to be amended to totally exempt elected state and local officials and their representatives. The new lobbying reform legislation also must exempt state and local officials and their representatives. We are partners in government, the duly elected representatives of our citizens, not special interest groups. These changes would make the administration's initiatives much more flexible and would enhance the President's Executive Orders, and accomplish the congressional goals in legislation much faster.

Mandate Relief. There are nearly 25 bills now before Congress that call for mandate relief. One bill has more than 188 cosponsors. These bills range from a constitutional amendment, super majority votes, and new points of order to bills that do little more than the current Congressional Budget Office fiscal note requirement.

The Governors support fiscal notes, but more importantly, they value consultation on major legislation prior to introduction and ongoing consultation with the leadership, committee chairs, and ranking Republicans as it is finalized. What we need most of all from Congress is a new commitment to federal/state/local partnership. In addition, accountability is needed to evaluate past fiscal notes to see if they accurately represent the cost to states.

Program Reforms. Governors are working with the administration for major reforms in health care, education, welfare, and training. In every case the important issues are state flexibility, waiver authority, categorical grant consolidations, or statutory authority for states to coordinate and consolidate directly-related programs. Congress must approve this new way of doing business

Cost Benefit Analysis. We strongly applaud the new emphasis in Congress in calling upon EPA to do risk assessments and cost-benefit analysis on new regulations. We must put more flexibility into most of the federal programs that would allow state and local governments to meet their highest priorities and the goals of Congress at the same time. There is much that Congress and the states can do together and do better to serve the citizens.

Mr. Chairman, we look forward to building a stronger federal/state partnership during the years ahead. While our fiscal situation during the next decade will be difficult, it is important for us to work together to make the entire governmental system more cost effective in the delivery service to all our residents.

I would be happy to answer any questions.

Mr. TOWNS. At this time, I would like to yield to the gentleman from Florida to introduce our next witness.

Mr. MICA. Mr. Chairman and members of the subcommittee, it is indeed an honor and privilege for me to introduce Barbara Sheen Todd from Florida and not only is she here in her capacity as a distinguished participant and local elected official, but she has also distinguished herself as the president of the National Association of Counties.

So we know her well in Florida and I thank you, Mr. Chairman, for allowing me the privilege of honoring her with an introduction. Again, a very distinguished and accomplished local government leader.

Mr. TOWNS. Let me join my colleague in welcoming you and being one that was involved in county government at one time myself, we are delighted to see you.

STATEMENT OF BARBARA S. TODD, PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES

Ms. TODD. Well, I could tell, when I came in the room from the pearls of wisdom I heard emanating from your lips, that each of you had been exposed in a very significant way to the challenges of local government.

As the president of the National Organization of Counties, it is an honor to represent our concerns to you. As you know, NACO represents all of the counties in America, the urban counties, the rural counties, the suburban counties, and my testimony is going to relate to the General Accounting Office report which was released today, and the financial conditions of State and local governments, but particularly as it relates to the context of surveys that we have done in our current work on health and welfare reform, and the upcoming focus that the National Association of Counties is placing on the unfunded mandates.

I want to take this opportunity, Mr. Condit, to express our appreciation to you for sponsoring the unfunded mandates bill and commend you on your leadership in that area. We support you wholeheartedly.

Mr. CONDIT. Thank you.

Ms. TODD. The committee has asked us how county financial conditions affect our ability to implement health or welfare reform. In the majority of States, county governments are responsible for financing and/or administering health and human services programs.

We not only deliver Federal and State programs, but we often operate county only funded programs, such as general cash or medical assistance or other programs for needy individuals who do not fit neatly into Federal or State eligibility requirements.

A few significant facts help outline our involvement. Counties are responsible for spending \$30 billion annually on health and hospital costs. In over 30 States, counties are legally and financially responsible for the uninsured. In 20 States, counties contribute to the non-Federal share of Medicaid, and in human services, the county role is also extensive.

Counties in 18 States contribute to the administrative cost of AFDC and in 11 States counties match the non-Federal share of

benefits. Counties in 23 States participate in a general assistance program and in 12 of these States, the program operates solely on county taxpayer dollars.

In short, in nearly every State, counties are a funder and administrator of some, if not all, of the patchwork of Federal and State health and human services programs.

Not only are the counties often the health and human services safety net, we have also become the Federal and State budget safety valve, so our support for reform of health and welfare systems is based on the belief that these are national priorities and that they should no longer be shouldered by county property taxpayers.

Individuals in need should not be treated differently depending on where they live, and while we believe the President's health proposal is moving in the right direction, we have a number of concerns that relate to local administrative and financial liabilities.

Because of our involvement in health, there are a number of questions we have in the initial analysis of President Clinton's health proposal. We have prepared a list of 37 questions that get to the heart of the operational complexity and potential fiscal liability of counties in implementing reform.

Those issues include: Our continuing role as providers, at least through the transition, and the need to be assured reimbursement from health plans for persons who continue to come to us for care, regardless of where their health plan tells them to go.

Populations such as undocumented immigrants and persons in our jails who await trial are also deemed ineligible under the proposal, so while reform has the potential to relieve our county taxpayers of some of the burden, there are significant local concerns that are not yet resolved, and I listened with interest, Mr. Chairman, to your observations.

I was in your great State a few weeks ago addressing the State Association of Counties and I was appalled at some of the information that came back to me. I met local commissioners from your State, Mr. Chairman, who are submitting half of their general revenue to pay for their Medicaid match.

I heard a story from one county official that told me that he had to pay \$147 million in Medicaid match for a county of 400,000 people, and that is just part of the match. That does not include the State match or the Federal dollars. So obviously something must be done.

Medicaid in New York has become the largest single appropriation in their budgets. In 1993 on average, over 38 percent of county tax levies outside of New York City will be allocated to pay for Medicaid, and if these trends continue, by the year 2000, New York county Medicaid budgets will nearly double, amounting to \$7 billion.

So too is the case with welfare reform, and I think it is significant to point out that despite the availability of Federal funding for the JOBS program under the Family Support Act, most States have not had enough of their own resources to draw down their full Federal allocation.

The resolution you received, Mr. Mica, was not by accident. As you may be aware, the counties and the cities and the school boards and the townships throughout America have joined together

in expressing our concern regarding unfunded Federal mandates. I submit to you that you will be receiving, all of you, resolutions from throughout America, and our concerns will be highlighted in our upcoming National Unfunded Mandates Day, which is scheduled for October 27.

NACO will be joining with the U.S. Conference of Mayors, the National League of Cities, and the International City and County Management Association to initiate the first day of a long-term campaign to stop unfunded Federal mandates.

Along with the U.S. Conference of Mayors, the National Association of Counties will be releasing a survey of counties and cities on the cost of 10 to 12 of the most troublesome Federal mandates.

Our own fiscal surveys emphasize the tremendous budget pressures faced by urban and rural counties. Counties are taking action by raising revenues and cutting programs and employees, and I have attached to my testimony a summary of our most recent survey. Let me highlight briefly a few of those findings.

In February 1993, we found in a survey of urban counties that over 80 percent raised additional revenues over the past year. Over three-fourths cut programs, 70 percent cut their work force. Three-quarters expect to raise additional revenues next year. Of necessary capital projects \$10 billion worth have been postponed.

And our 1992 survey of rural counties revealed similar findings. The GAO report confirms our own findings, and it recognizes the legal constraints on raising property taxes in many counties. It identifies spiraling health and corrections costs. It outlines recessionary pressures, declines in Federal grants, employee layoffs, local revenue increases and declining budget surpluses.

We appreciate this subcommittee's attention to this issue. We applaud Majority Leader Gephardt for requesting the GAO study. Counties will continue to look for more efficient and effective ways of delivering health and human services programs, and of course we support reforms as they are needed, but these reforms cannot be accomplished through additional unfunded Federal mandates.

Thank you.

Mr. TOWNS. Thank you very much, Ms. Todd.

[The prepared statement of Ms. Todd follows:]

**NATIONAL
ASSOCIATION
of
COUNTIES**

*440 First St. NW, Washington, DC 20001
202/393-6226*

STATEMENT OF

BARBARA SHEEN TODD

COMMISSIONER, PINELLAS COUNTY, FLORIDA

AND

PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES

ON

**THE FINANCIAL ABILITY OF STATE AND LOCAL
GOVERNMENTS TO IMPLEMENT HEALTH
AND WELFARE REFORM**

BEFORE THE

HOUSE GOVERNMENT OPERATIONS SUBCOMMITTEE

ON

**HUMAN RESOURCES AND INTERGOVERNMENTAL
RELATIONS**

**OCTOBER 6, 1993
WASHINGTON, D. C.**

MR. CHAIRMAN, SUBCOMMITTEE MEMBERS, I AM BARBARA TODD, COMMISSIONER IN PINELLAS COUNTY, FLORIDA AND PRESIDENT OF THE NATIONAL ASSOCIATION OF COUNTIES* THE GENERAL ACCOUNTING OFFICE REPORT RELEASED TODAY ON THE FINANCIAL CONDITIONS OF STATE AND LOCAL GOVERNMENTS IS VERY TIMELY. MY TESTIMONY WILL PLACE THE REPORT IN THE CONTEXT OF OUR SURVEYS, OUR CURRENT WORK ON HEALTH AND WELFARE REFORM AND OUR UPCOMING FOCUS ON UNFUNDED MANDATES.

THE COMMITTEE HAS ASKED US HOW COUNTY FINANCIAL CONDITIONS AFFECT OUR ABILITY TO IMPLEMENT HEALTH OR WELFARE REFORM.

IN THE MAJORITY OF STATES, COUNTY GOVERNMENTS ARE RESPONSIBLE FOR FINANCING AND/OR ADMINISTERING HEALTH AND HUMAN SERVICES PROGRAMS. WE NOT ONLY DELIVER FEDERAL AND STATE PROGRAMS, BUT WE OFTEN OPERATE COUNTY-ONLY FUNDED PROGRAMS SUCH AS GENERAL CASH OR MEDICAL ASSISTANCE OR OTHER PROGRAMS FOR NEEDY INDIVIDUALS WHO DO NOT FIT NEATLY INTO FEDERAL OR STATE ELIGIBILITY REQUIREMENTS.

* The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government. The goals of the organization are to: improve county government; serve as the national spokesman for county government; serve as a liaison between the nation's counties and other levels of government; achieve public understanding of the role of counties in the federal system.

A FEW SIGNIFICANT FACTS HELP OUTLINE OUR INVOLVEMENT.

- o COUNTIES ARE RESPONSIBLE FOR SPENDING \$30 BILLION ANNUALLY ON HEALTH AND HOSPITAL SERVICES;
- o COUNTIES OWN AND OPERATE OVER 4,500 HEALTH FACILITIES, INCLUDING 581 HOSPITALS, AND NEARLY 2,000 LOCAL HEALTH DEPARTMENTS;
- o IN OVER 30 STATES, COUNTIES ARE LEGALLY AND FINANCIALLY RESPONSIBLE FOR THE UNINSURED;
- o IN 20 STATES, COUNTIES CONTRIBUTE TO THE NON-FEDERAL SHARE OF MEDICAID.

IN HUMAN SERVICES, THE COUNTY ROLE IS ALSO EXTENSIVE.

- o COUNTIES IN 18 STATES CONTRIBUTE TO THE ADMINISTRATIVE COSTS OF AFDC AND IN 11 STATES COUNTIES MATCH THE NON-FEDERAL SHARE OF BENEFITS;
- o COUNTIES IN 23 STATES PARTICIPATE IN A GENERAL ASSISTANCE PROGRAM AND IN 12 OF THOSE STATES THE PROGRAM OPERATES SOLELY ON COUNTY TAXPAYER DOLLARS;
- o CHILD WELFARE, CHILD CARE, CHILD SUPPORT ENFORCEMENT ARE ALSO OFTEN COUNTY-BASED.

IN SHORT, IN NEARLY EVERY STATE, COUNTIES ARE A FUNDER AND ADMINISTRATOR OF SOME, IF NOT ALL, OF THE PATCHWORK OF FEDERAL AND STATE HEALTH AND HUMAN SERVICES PROGRAMS.

THIS PATCHWORK IS THE FOCUS OF MAJOR HEALTH AND WELFARE REFORM EFFORTS. WE ARE DEEPLY INVOLVED IN BOTH AT THE FEDERAL AND STATE LEVELS. IN HEALTH REFORM, EIGHT COUNTY OFFICIALS PARTICIPATED ON THE WHITE HOUSE TASK FORCE. IN WELFARE REFORM, NACo HAS WORKED WITH ITS SISTER STATE AND LOCAL GOVERNMENT ASSOCIATIONS, MET WITH AND TESTIFIED BEFORE THE ADMINISTRATION'S TASK FORCE AND HAS DEVELOPED A POSITION ON WELFARE REFORM: ITS THIRD SINCE 1981.

WE BELIEVE THAT NOT ONLY ARE COUNTIES OFTEN THE HEALTH AND HUMAN SERVICES SAFETY NET, WE HAVE ALSO BECOME THE FEDERAL AND STATE BUDGET SAFETY VALVE. SO, OUR SUPPORT FOR REFORM OF THE HEALTH AND WELFARE SYSTEMS IS BASED ON THE BELIEF THAT THESE ARE SIGNIFICANT NATIONAL PRIORITIES THAT SHOULD NO LONGER BE SHOULDERED BY THE COUNTY PROPERTY TAXPAYER. INDIVIDUALS IN NEED SHOULD NOT BE TREATED DIFFERENTLY DEPENDING ON WHERE THEY LIVE. WHILE WE BELIEVE THE PRESIDENT'S HEALTH PROPOSAL IS MOVING IN THE RIGHT DIRECTION, WE HAVE A NUMBER OF CONCERNS THAT RELATE TO LOCAL ADMINISTRATIVE AND FINANCIAL LIABILITIES.

A FEW KEY CENSUS BUREAU STATISTICS OUTLINE HOW HEALTH AFFECTS COUNTIES FINANCIALLY. COUNTIES IN THE 1980'S EXPERIENCED

A 105 PERCENT INCREASE AFTER INFLATION IN GENERAL EXPENDITURES FOR HEALTH AND HOSPITALS. SPENDING ON HEALTH AND HOSPITALS NOW CONSTITUTES 17 PERCENT OF AN AVERAGE COUNTY'S BUDGET.

BECAUSE OF OUR INVOLVEMENT IN HEALTH, THERE ARE A NUMBER OF QUESTIONS WE HAVE IN THE INITIAL ANALYSIS OF PRESIDENT CLINTON'S HEALTH PROPOSAL. WE HAVE PREPARED A LIST OF 37 QUESTIONS THAT GET TO THE HEART OF THE OPERATIONAL COMPLEXITY AND POTENTIAL FISCAL LIABILITY OF COUNTIES IN IMPLEMENTING REFORM. THOSE ISSUES INCLUDE OUR CONTINUING ROLE AS PROVIDERS, AT LEAST THROUGH THE TRANSITION, AND THE NEED TO BE ASSURED REIMBURSEMENT FROM HEALTH PLANS FOR PERSONS WHO CONTINUE TO COME TO US FOR CARE, REGARDLESS OF WHERE THEIR HEALTH PLAN TELLS THEM TO GO.

POPULATIONS SUCH AS UNDOCUMENTED IMMIGRANTS AND PERSONS IN OUR JAILS WHO AWAIT TRIAL ARE ALSO DEEMED INELIGIBLE UNDER THE PROPOSAL. SO, WHILE REFORM HAS THE POTENTIAL TO RELIEVE OUR COUNTY TAXPAYERS OF SOME OF THE BURDEN, THERE ARE SIGNIFICANT LOCAL CONCERNS THAT ARE NOT YET RESOLVED.

THE NEW YORK COUNTIES ARE PARTICULARLY HARD HIT BY THE LACK OF HEALTH REFORM. MEDICAID HAS BECOME THE LARGEST SINGLE APPROPRIATION IN THEIR BUDGETS. IN 1993, ON AVERAGE, OVER 38 PERCENT OF COUNTY TAX LEVIES OUTSIDE OF NEW YORK CITY WILL BE ALLOCATED TO PAY FOR MEDICAID. IF TRENDS CONTINUE, BY THE YEAR 2000 NEW YORK COUNTY MEDICAID BUDGETS WILL NEARLY DOUBLE: AMOUNTING TO \$7.0 BILLION.

SO TOO IS THE CASE WITH WELFARE REFORM. I THINK IT IS SIGNIFICANT TO POINT OUT THAT DESPITE THE AVAILABILITY OF FEDERAL FUNDING FOR THE JOBS PROGRAM UNDER THE FAMILY SUPPORT ACT, MOST STATES HAVE NOT HAD ENOUGH OF THEIR OWN RESOURCES TO DRAW DOWN THEIR FULL FEDERAL ALLOTMENT.

IN ADDITION TO OUR DIRECT PAYMENT FOR CASH BENEFITS AND SUPPORTIVE SERVICES, WE ARE BURIED IN PAPERWORK CREATED BY THE VARIOUS ELIGIBILITY REQUIREMENTS FOR HUMAN SERVICES PROGRAMS. THE COSTS OF IMPLEMENTING CURRENT WELFARE PROGRAMS WOULD BE REDUCED GREATLY IF COUNTY CASEWORKERS HAD ONLY ONE SET OF FEDERAL AND STATE ELIGIBILITY RULES INSTEAD OF COMPLETELY DIFFERENT AND OFTEN CONFLICTING PROCEDURES TO DETERMINE BENEFIT LEVELS FOR A VAST ARRAY OF PROGRAMS. IT IS TIME THAT OUR COUNTY CASEWORKERS ARE ALLOWED TO GET BACK TO THE JOB OF WORKING WITH CLIENTS TO MOVE THEM INTO SELF-SUFFICIENCY. TODAY, THEY ARE CONSUMED BY PAPERWORK AND THE FEDERAL THREAT OF FISCAL SANCTIONS IF THEY MAKE MISTAKES.

OUR CONCERNS WILL BE HIGHLIGHTED IN OUR UPCOMING NATIONAL UNFUNDED MANDATES DAY. SCHEDULED FOR OCTOBER 27, NACO WILL BE JOINING WITH THE U. S. CONFERENCE OF MAYORS, THE NATIONAL LEAGUE OF CITIES AND THE INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION TO INITIATE THE FIRST DAY OF A LONG TERM CAMPAIGN TO STOP UNFUNDED FEDERAL MANDATES. ALONG WITH THE U. S CONFERENCE OF MAYORS, NACO WILL BE RELEASING A SURVEY OF COUNTIES AND CITIES ON THE COST OF TEN TO TWELVE OF THE MOST TROUBLESOME FEDERAL

MANDATES. THE RESULTS OF THE SURVEY ARE BEING COMPILED. THERE ARE A NUMBER OF COMMENDABLE NATIONAL PRIORITIES THAT MUST BE ENACTED, INCLUDING REFORM OF HEALTH AND WELFARE PROGRAMS. WE BELIEVE THAT NATIONAL PRIORITIES SHOULD BE FUNDED NATIONALLY. THE FEDERAL GOVERNMENT CANNOT CONTINUE TO USE OUR PROPERTY TAXES AS ITS CREDIT CARD.

OUR OWN FISCAL SURVEYS EMPHASIZE THE TREMENDOUS BUDGET PRESSURES FACED BY URBAN AND RURAL COUNTIES. COUNTIES ARE TAKING ACTION BY RAISING REVENUES AND CUTTING PROGRAMS AND EMPLOYEES. I HAVE ATTACHED A SUMMARY OF OUR MOST RECENT SURVEY. LET ME HIGHLIGHT A FEW FINDINGS.

IN FEBRUARY 1993, WE FOUND IN A SURVEY OF URBAN COUNTIES:

- OVER 80 PERCENT RAISED ADDITIONAL REVENUES OVER THE PAST YEAR;
- OVER THREE-FOURTHS CUT PROGRAMS;
- 70 PERCENT CUT THEIR WORKFORCE;
- THREE QUARTERS EXPECT TO RAISE ADDITIONAL REVENUES NEXT YEAR;
- \$10 BILLION WORTH OF NECESSARY CAPITAL PROJECTS HAVE BEEN POSTPONED.

OUR 1992 SURVEY OF RURAL COUNTIES REVEALED SIMILAR FINDINGS.

THE GAO REPORT CONFIRMS OUR OWN FINDINGS. IT RECOGNIZES THE LEGAL CONSTRAINTS ON RAISING PROPERTY TAXES IN MANY COUNTIES. IT IDENTIFIES SPIRALING HEALTH AND CORRECTIONS COSTS. IT OUTLINES RECESSIONARY PRESSURES, DECLINES IN FEDERAL GRANTS, EMPLOYEE LAYOFFS, LOCAL REVENUE INCREASES AND DECLARING BUDGET SURPLUSES.

WE APPRECIATE THIS SUBCOMMITTEE'S ATTENTION TO THIS ISSUE AND APPLAUD MAJORITY LEADER GEPHARDT FOR REQUESTING THE GAO STUDY. COUNTIES WILL CONTINUE TO LOOK FOR MORE EFFICIENT AND EFFECTIVE WAYS OF DELIVERING HEALTH AND HUMAN SERVICES PROGRAMS. REFORM OF THOSE SYSTEMS IS NEEDED, BUT THEY CANNOT BE DONE THROUGH ANOTHER UNFUNDED MANDATE.

THANK YOU FOR INVITING ME TO TESTIFY. I WILL BE HAPPY TO ANSWER ANY QUESTIONS.

NACo URBAN COUNTY FISCAL SURVEY: Executive Summary



February 1993

Scope of Survey

- NACo recently surveyed 66 large urban counties about their fiscal situation.
- Together these counties represent 82.6 million citizens, or one-third of the nation's population.

\$10 Billion of Unfunded Capital Projects

- The urban counties reported a pent-up demand of unfunded capital projects, valued at \$10 billion, in numerous areas, including roads and bridges, hospitals, jails, sewers, housing projects, courts, libraries, and parks.

Revenue and Expenditure Projections

- Almost 2 of every 3 counties (65.2%) generated lower than estimated own-source revenues, or revenues that counties levy directly.
- More than half (51.5%) of the surveyed counties reported that fiscal assistance from other governments was lower than projected.
- More than half (51.5%) of the surveyed counties reported that expenditures were higher than projected.
- Overall, more than 4 of every 5 counties (83.3%) reported that projections were off target in at least one area — own-source revenue, intergovernmental aid or expenditures; more than a quarter (27.3%) of surveyed counties reported that their projections were off in all three categories.

Budget Balancing Measures

- Since counties are required by law to balance their budgets, the most common measure implemented by counties was increasing revenues; more than 4 of every 5 counties (81.8%) raised additional revenues, valued at more than \$1.9 billion.
- More than 7 of every 10 counties (71.2%) used reserve funds to help balance their budgets.
- More than 3 of every 4 counties (77.3%) cut programs and services to help offset their budget imbalances.
- More than 7 of every 10 counties (71.2%) reduced their workforce to get their budgets back on target.
- Overall, almost every county (98.5%) reported that they had to implement at least one measure; almost 2 of every 5 counties (39.4%) reported that all four measures were necessary to balance their budgets.

Future Outlook

- Almost 3 of every 4 counties (74.2%) reported that they expect having to raise additional revenues in the next year.
- Almost half (45.5%) of the surveyed counties expect that they will use reserve funds.
- More than 7 of every 10 counties (71.2%) anticipate that they will have to cut programs and services in the coming year.
- Three of every 5 counties (60.6%) expect to reduce their workforce over the next year.

National Association of Counties • 440 First Street, N.W. • Washington, D.C. 20001 • 202/393-6226

Mr. TOWNS. Mr. Frank Shafroth.

STATEMENT OF FRANK SHAFROTH, DIRECTOR, NATIONAL LEAGUE OF CITIES

Mr. SHAFROTH. Thank you, Mr. Chairman, my name is Frank Shafroth, and I am director of Federal relations and policy for the National League of Cities.

I am here today on behalf of more than 170,000 municipal elected officials across the country. I am here today because we believe the fate of cities is inextricably linked with the economic competitiveness of the Nation.

We hope that this hearing, second in this series, and the commitment of the majority leader to address not only fiscal disparities, but also the cost of unfunded Federal mandates, will mark the first step in an effort to create a policy to reinvest in America's economic security and in shaping a national agenda to restructure our economic foundations.

We hope that the outcome of this set of hearings will be the development of a short and long-term Federal, State, and local partnership and fiscal agenda to make the Federal Government a positive partner in addressing fiscal disparities, changing current Federal policies, which we believe add to and exacerbate disparities rather than level the playing field.

We support efforts to restructure and reform health care in this country from two perspectives which are comparable to yours. First, for our employees, second, for our constituents.

I would like to give some background for some of the issues. And with regard to the issues that are facing front forward in this committee, we think with regard to health care there are certain critical issues: How many of the alliance plans draw borders for health care alliances stand the possibility of pitting cities against suburbs, potentially further exacerbating disparities between richer and poorer communities within States; the recent decision within the administration to exclude States and local governments from the cap on employer contributions could impose severe constraints on the smallest municipalities, many of which are in New Mexico, for instance, and the Nation's poorest cities.

The explanation we received on Saturday morning from the administration is because cities have an unlimited capacity to raise taxes, they ought not to be forced to play by the same rules as business. Congressman Condit, as you know, in California there is no such unlimited capacity. Proposition 13, 2½ in Massachusetts and limitations in many States indeed put a strict cap on revenue raising capacity.

Third, any plan which imposes uniform requirements irrespective of fiscal capacity will, in our view, almost be certain to fail. It has now been nearly 18 months since our Nation witnessed the most serious civil disturbance in more than a century as fires in the city of Los Angeles were starting at a rate of three per minute. An era of neglect spawned an awful 24 hours of rage, hate, and frustration.

For more than a decade, the Federal Government has had no national policy for cities. But the terrible tragedy of Los Angeles should have come as a shock to the Nation as a sharp reminder of

how distant Washington has become from the cities and towns and counties that have been the economic foundation of our country.

As we testified before this subcommittee in your first hearing, we are concerned that current welfare policies and current fiscal policies aggravate rather than work toward the construction of strong municipal and metropolitan foundations for the future.

The basic problems that we see are changing. These are different problems than we experienced two decades ago. Today, 30 percent of children in central cities live in poverty, 26 percent of children in rural small towns. In 1991, the Federal Government spent an average of \$13 for every American over the age of 65, \$1 for every American under the age of 18.

In 1982, in Minneapolis, 25 percent of the children in the public school system came from single heads of households. Today, that percentage is 50. By 1997, it is projected to be 75 percent. The dissolution of families leads almost inevitably to drugs, juvenile crime, dropouts, AIDS, and failure. It is an omen.

As our President said, without a change, cities in this country will die.

Crime. Last year, violent crime increased by 65 percent in Wilkes-Barre, PA. It is not a big urban city. It is a small, relatively rural municipality.

The recent recession has drastically changed the nature of joblessness from one of being temporary to permanent. It has contributed to the growth of a large under class in city after city in America. More and more we saw in the last decade that for an American who had a bullet hole in his or her stomach, had a violent illness, the only redress was to dial 911. The cost was imposed upon municipalities.

Disparity in per capita income between central cities and suburbs now stands at the highest levels ever recorded in this country. Between 1960 and 1989 the ratio has experienced a steady deterioration, dropping from 105 percent in 1960 to 84 percent in 1989.

That decline in incomes has translated into severe declines in city tax bases, but huge increases in public needs for services and facilities.

It has come during a period of the sharpest declines in Federal assistance and at the latter end of the decade with growing declines by States. As you heard from Mr. Scheppach, the States were forced to deal with growing crime rates, prison costs, and Medicaid costs.

The chapter 9, municipal bankruptcy filing by Bridgeport, CT in 1991 was not an aberration. If anything, it is an extraordinary tribute to the ingenuity of municipal elected officials that in a year when 1 million businesses filed for corporate bankruptcy, that was the only city in America to do so.

In 1986 the authority and ability of cities to issue tax exempt bonds was significantly limited. In extraordinarily complex and expensive arbitrage, mandates were imposed. So what we saw over the decade of the 1980's, Congress enacted 172 laws, imposing requirements or mandates on States and local governments, but cut funding to local governments by 75 percent and cut back on municipal authority to borrow or finance compliance with those new mandates.

Moreover, as the importance of investment, physical and fiscal grew, disparities in the cost of financing grew so that the cost to Bridgeport to finance the cost of building a new school or bridge or jail could be more than 100 basis points higher than its adjacent and far wealthier suburban jurisdiction of Fairfield County, CT.

In effect, as we reported earlier to this committee, the decade of the 1980's saw fiscal disparities between central cities and suburbs grow to the greatest levels ever recorded. For those reasons, we very much were excited about the majority leader's presentation this morning.

I want to note finally, as we saw during the economic recovery legislation that the President signed in August, that while it retains the cap on Federal discretionary spending, there is no comparable cap on tax expenditures and Federal entitlement spending. That is Federal spending which primarily benefits nonmetropolitan areas and have continued the unrelenting growth of expenditures in those areas, which dwarf direct assistance to States and local governments. It provides Federal aid more and more to those least in need, while taking away Federal aid more and more to those most in need who tend to be in small rural cities or counties or in central cities.

So we believe very strongly that current Federal policies, without consciously being set, are doing far more to contribute to problems in the disparities in the General Accounting Office report presented to you this morning than dealing with us in a Federalistic manner to address the problems of concern to this subcommittee.

Thank you, Mr. Chairman.

Mr. TOWNS. Thank you too for your testimony.

[The prepared statement of Mr. Shafroth follows:]



**National
League
of
Cities**

1301 Pennsylvania Avenue N.W.
Washington, D.C.
20004
(202) 626-3000
Fax: (202) 626-3043

Officers

President
Donald M. Fraser
Mayor Minneapolis Minnesota

First Vice President
Sharpe James
Mayor Newark New Jersey

Second Vice President
Carolyn Long Banks
Councilwoman-at-Large Atlanta Georgia

Immediate Past President
Glenda E. Hood
Mayor Orlando Florida

Executive Director
Donald J. Borut

STATEMENT

by

FRANK SHAFROTH
DIRECTOR, CENTER FOR POLICY AND FEDERAL RELATIONS
THE NATIONAL LEAGUE OF CITIES

on

HEALTH & WELFARE REFORM IN STATES AND CITIES

before the

SUBCOMMITTEE ON HUMAN RESOURCES AND INTERGOVERNMENTAL RELATIONS

OCTOBER 6, 1993

Past Presidents: Sidney J. Barthelemy, Mayor New Orleans Louisiana • Tom Bradley, Mayor Los Angeles, California • Ford L. Harrison, Mayor Scotland Neck, North Carolina • Cathy Reynolds, Councilwoman-at-Large, Denver Colorado • *Directors:* Joseph L. Adama, Councilmember University City, Missouri • Victor Ashe, Mayor Knoxville, Tennessee • Kenneth Bullock, Executive Director, Utah League of Cities and Towns • Jimmy Burke, Mayor Deer Park, Texas • William D. Burney, Jr., Mayor Augusta, Maine • Jon C. Burrell, Executive Director Maryland Municipal League • Anthony Capizzi, Commissioner Dayton, Ohio • Patricia E. Castillo, Mayor Sunnyvale, California • Pese Chavez, Councilor Santa Fe, New Mexico • E. W. Cromartie, II, Councilman, Columbus, South Carolina • Charles A. DeFeney, Mayor Augusta, Georgia • William Evers, Mayor Bradenton, Florida • Martin Gispson, Alderman, North Little Rock, Arkansas • Charles K. Hazama, Mayor Rochester, Minnesota • Frances Huntley-Cooper, Mayor Fitchburg, Wisconsin • Robert R. Jefferson, Councilmember Lexington-Fayette, Kentucky • Abbe Land, Councilmember West Hollywood, California • Christopher G. Lockwood, Executive Director Maine Municipal Association • Mills MacLeod, Council Member Moorhead, Minnesota • Gary D. McCaleb, Mayor Abilene, Texas • Thomas Manino, Councilor Boston, Massachusetts • J. Ed Morgan, Mayor Hattiesburg, Mississippi • Meyers Oberndorf, Mayor Virginia Beach, Virginia • Judith R. Olson, Councilmember Madison, Wisconsin • Sandrine Piclatti, Mayor Pro Tempore Liberty, Texas • Mary Pinkatt, Council Member New York City, New York • Lynn Rias, Executive Director League of Nebraska Municipalities • Raymond Sittig, Executive Director Florida League of Cities • Woodrow Stanley, Mayor Flint, Michigan • Frank Sturzi, Executive Director Texas Municipal League • Kent E. Swisher, Executive Director Alaska Municipal League • Daniel K. Tabor, Councilmember Inglewood, California • Dan Thompson, Executive Director League of Wisconsin Municipalities • Paul E. Thornton, Councilmember Vienna, West Virginia • Doris Ward, Supervisor San Francisco, California • Wallington Webb, Mayor Denver, Colorado • Jim W. White, Councilmember Kent, Washington • Jack Williams, Mayor Franklin Park, Illinois • Alice K. Wolf, Mayor Cambridge, Massachusetts • Robert G. Young, Jr., Mayor Henderson, North Carolina

Recycled Paper

Mr. Chairman and members of the committee, I am Frank Shafroth, Director of Policy and Federal Relations for the National League of Cities. I am here today on behalf of the more than 170,000 municipal elected officials from cities of all sizes in all regions of the nation to testify with respect to city fiscal capacity to implement health care reform and welfare reform, as well as to provide you with some of our perceptions about the state of cities in America today.

I also want to express our gratitude to the Majority Leader for his efforts to seek a status report of the fiscal condition of states and local governments. We believe there have been fundamental changes since the Kerner Commission report more than a quarter century ago and that your joint efforts are central to developing an urban policy as we near the next century.

We appreciate the ongoing effort of the committee to hold these hearings in an effort to address the underlying issues critical to the economic future of metropolitan regions and our national economy. We believe the fate of cities is inextricably linked with the economic competitiveness of the nation.

Although the administration has not submitted statutory proposals on either comprehensive health care or welfare reform, we would like to provide the committee with some issues and concerns from our perspective as Congress moves ahead on each issue.

We support efforts to restructure and reform health care in this country from two perspectives comparable to yours: as employers and as responders and health care providers to our constituents. The rising costs of providing health care benefits to our employees combined with the erosion of state budgets to pay for matching Medicaid costs have enormous fiscal impacts. Consequently we will continue to work with the administration and Congress to in support of universal access to health care, but to control rising costs.

I have attached our first, preliminary analysis of the impact of the President's health care plan on the nation's cities to my testimony. I have also brought with me copies of our report, City Fiscal Conditions in 1993, reporting on fiscal trends and stress in cities. In addition, I would like to raise issues that directly relate to the committee's interests:

- how the plans draw borders for health care alliances could pit city against suburb, potentially further exacerbating disparities between richer and poorer areas,
- the decision to exclude states and local governments from the cap on employer contributions under the President's health care plan could impose severe constraints on the smallest as well as the poorest cities, and
- any plan which imposes uniform requirements on cities

irrespective of fiscal capacity will be almost certain to fail.

Background

A year and a half ago, our nation witnessed the most serious civil disturbances of more than a century. Fires in the City of Los Angeles were starting at a rate of three a minute. An era of neglect spawned an awful 24 hours of rage, hate, and frustration.

For more than a decade the federal government has had no national policy for cities. That the terrible tragedy of Los Angeles should have come as a shock to the nation is a sharp reminder of how distant Washington has become from the cities and towns that have been the economic foundation of the nation.

We believe the health and viability of cities in an international economy ought to be of concern to the federal government. As we testified before this subcommittee earlier this year, we are concerned that current welfare policies and current fiscal and physical policies aggravate rather than work towards the construction of strong municipal and metropolitan foundations for the future.

Basic Problems in Cities:

* family: the number of children under the age of 6 in poverty in America has climbed 27.5 percent from 4 to 5.1 million since 1980. Today 30 percent of those children in central cities live in poverty and 26 percent in rural areas. 83 percent of children of black families where the head of household failed to graduate from high school live in poverty. Yet, in 1991, the federal government spent \$13 on every American over the age of 65 for every \$1 on an American under the age of 18.

In Minneapolis, in 1982, 25 percent of the children in the public school system came from single heads of households. Today it is 50 percent. By 1997 it is projected to be 75 percent. The dissolution of the family leads - almost inevitably - to drugs, juvenile crime, drop outs, AIDs, and failure. It is an omen. Without a fundamental change, cities will die.

* crime: violent drugs and crime are increasing in record rates across the nation - in every community. Rapes have increased by nearly 20 percent since 1980; violent crimes by nearly 33 percent, aggravated assaults by nearly 40 percent. The risk of murder for teenagers has increased by 103 percent since 1985. The rise of crime and drugs shows no respect for geography or region. Last year, violent crime increased by 65 percent in Wilkes Barre. In city after city, gangs now have enough legally purchased and illegally stolen firepower to take on entire police departments. As Senator Bradley said: "Fear covers the streets of our cities like a sheet of ice."

* education: by any measure, education now falls far behind our

competitors. In Cleveland, the previous mayor indicated that as many as 75 percent of the high school graduates were functionally illiterate. Failure to fully fund Head Start and to follow-up makes intervention after the age of 6 prohibitive.

* employment: Although data are limited, the National League of Cities reported a year ago "the evidence is strong that central city unemployment rates greatly exceed those of many metropolitan areas - more than twice as high in cities like Detroit and St. Louis. More seriously, the recent recession has drastically changed the nature of joblessness from one of being temporary to permanent. It has contributed to the growth of the underclass in city after city.

* health: health care costs are some of the highest and fastest increasing costs of cities - for the majority of Americans without access to health care live in cities. Their only access is to dial 9-1-1.

* disparities: Disparities in per capita income between central cities and suburbs now stands at the highest levels ever recorded. Between 1960 and 1989, the ratio has experienced a steady deterioration, dropping from 105 percent in 1960 to 84 percent in 1989. The steady decline in incomes has translated into severe declines in city tax bases, but huge increases in public needs for services and facilities. It has come during a period of the sharpest declines in federal assistance, and, at the latter end of the decade, growing declines by states. The chapter 9 filing by Bridgeport, Connecticut in 1991 was not an aberration. If anything, it is a tribute to the ingenuity of municipal elected officials that in a year when a million businesses filed for bankruptcy, only one city did.

* housing: while tax expenditures for Americans who own one or more homes accelerated sharply over the decade, assisted housing declined more sharply than any other expenditure impacting cities and towns from \$22.7 billion in 1980 to \$7.8 billion in 1991. The pipeline to provide new units was cut off, creating an accelerating disparity between the number of low income units available and the number of low income renters. By 1985, the Census Bureau reported that there were 11.6 million renters for 7.9 million low-rent units; whereas in 1970, there were 9.7 million units for 7.3 million renters. The Bush administration's response was to terminate new construction and substantial rehabilitation of housing units at just the wrong time.

* credit: despite passage of revisions to HMDA and the CRA, the de facto evidence of racism and discrimination in both the insurance and financial industries remains so overwhelming that even the federal Reserve, the FDIC, and the Comptroller of the Currency - after years and years of not making the data public or taking any enforcement steps, have finally indicated that current performance levels are unacceptable. The evidence from the delayed Federal Reserve HMDA reports shows a clear pattern of

bank lending to suburbs and whites, further adding to the steady disinvestment in cities and minorities.

* tax policy: tax policy has changed significantly over the decade, both in terms of imposing sharp, new restrictions on cities and in terms of dramatically shifting the allocation of federal resources out of cities. In 1986, the authority and ability of cities to issue tax exempt bonds was significantly limited, and extraordinarily complex and expensive arbitrage and rebate mandates were imposed. The ability to do rehabilitation tax credits was eliminated, financing for commercial investments and improvements was eliminated, and the authority to privatize was curtailed.

Not only has the nature of circumstances affecting city fiscal capacity changed remarkably over the last decade, but also federal policies affecting cities have changed. Where in 1980 nearly four out of every five federal housing dollars were provided through the Department of Housing and Urban Development for low income housing needs, by 1990 nearly four out of every five federal housing dollars were spent through the Treasury to provide federal tax subsidies to Americans least in need and least likely to live in central cities.

In the decade of the 1980's, Congress enacted 172 laws imposing requirements or mandates on states and local governments, but cut funding to local governments by 75 percent and cut back on municipal authority to borrow to finance compliance with those new mandates. Moreover, as the importance of investment, physical and fiscal, grew; disparities in the cost of financing grew--so that the cost to Bridgeport to finance the cost of building a new school or bridge or jail could be more than 100 basis points higher than its adjacent, and far wealthier, suburban jurisdiction of Fairfield County.

In effect, as we have reported to this committee, the decade of the 1980's saw the fiscal disparities between central cities and suburbs grow to the greatest levels ever recorded. Central cities watched their tax bases erode, while their costs of providing public services escalated. In effect, they were and are caught in a whirlpool. But federal policies appeared to abet, rather than counteract those trends.

For those reasons, we are troubled that the draft report from the General Accounting Office was so long and so technical, especially as it related to the surplus/deficit discussion and not as responsive to the issues raised by the Majority Leader as we had hoped.

Our data has demonstrated growing disparities and indicated the vicious cycle they create. That is, as per capita income in central cities and rural small towns declines with consequent impacts on the local tax base, the costs of providing public services, especially for education, police and safety, and health rise. The fiscal crisis of Bridgeport was relatively easy to

understand: its tax rate was 200 percent of Fairfield County; yet its per capita expenditure for students and police protection was far less. Raising property taxes 18 percent, as demanded by the State of Connecticut when the city encountered its budget crisis, would likely have reduced, rather than increased net tax revenues; yet providing the police and fire services demanded by remaining businesses was beyond the city's means.

We saw no clear discussion of this transformation of the nation; yet I did see statements indicating that in some fiscal categories, all large cities are in relatively good shape. I note, moreover, statements in the report that state aid has more than offset lost federal aid, when we know from state data that only two categories of state spending have increased over the last seven years: corrections and Medicaid. So any suggestion that state aid has more than replaced cuts and eliminations in programs targeted to cities on the basis of fiscal or physical distress seems remarkable.

Finally, it would seem helpful to at least draw some attention to the larger picture and trends of the federal relationship to state and local governments and the relative impact on disparities. While there is much talk about a tight federal budget, the growth in tax expenditures and entitlement spending is indicative that that is not the case. It is also indicative that federal expenditures are becoming more and more inversely related to fiscal needs in the nation. Or, as we say, the federal relationship to cities has become more and more defined by the imposition of unfunded mandates than constructive assistance to confront the issue of disparities.

Since 1980 there has been an ever increasing flow of federal subsidies out of cities. These outflows have been characterized not only in the patterns of direct federal spending, but also through tax and entitlement expenditures, and, increasingly, through federally subsidized credit mechanisms.

There are trillions of federally insured deposit dollars and federally subsidized insurance dollars in bank vaults underneath city streets. However, the current system provides no incentive for reinvestment in urban areas, and market forces and racism create enormous disincentives.

Unless inner city businesses have access to financing, insurance, and related services at equitable prices; no amount of federal assistance is likely to help.

After the race riots in the late 1960's, a Presidential commission found that the redlining of businesses and homes in poor neighborhoods by private insurers grew by an "intolerable degree." Cities later noted the abrupt cancellation of property policies in New York, Philadelphia, St. Louis, and other cities. Those riots resulted in pillaging of many white-owned businesses in Los Angeles and other cities. Like today's Koreans, those

whites served communities where crime rates and arson were high, and where bank branches and services were virtually non-existent.

Repeated studies have indicated that redlining of poor neighborhoods by insurers continues. Steven Miller, California's Deputy Insurance Commissioner in charge of rate regulation, has already been quoted predicting that the L.A. riots "will be used by insurers to justify continued discriminatory practices and possibly the withdrawal of business from some areas."

A Federal Reserve study released last fall showed that minorities were rejected twice as often as whites for mortgage loans.

After the Watts riots and the Presidential Commission, Congress enacted both a Riot Reinsurance and Crime Insurance program. The Reagan administration successfully terminated the Riot Reinsurance program in 1983; the Crime Insurance program has been extended to 1995, but serves relatively few communities today.

If the federal government can provide crop insurance, flood insurance, and OPIC insurance; surely it can take some action to insure that insurance services and policies are available at affordable prices to the citizens and communities in greatest need today.

In the late 1960's, in response to civil disturbances and fires burning across 135 cities, the President and the Congress united in a war on poverty and racism. The nation's federal government dared to lead and dared to try to unite the nation on the most difficult of issues.

Today the contrast could hardly be more stark.

A year and a half ago, Sen. Bill Bradley (D-NJ) said:

"To say that America cannot find \$20 billion a year to save the cities at a time where everybody knows that fear covers the streets of our cities like a sheet of ice, and families are getting further and further behind everyday...is to be blind of the reality of the American future."

That fear is not unique to urban areas. It is in Wilkes Barre, Pennsylvania. It is in the small hamlets that criss-cross Montana. It is in Lewiston, Maine. It is in city after city where the combination of eroding resources and increasing poverty and alienation are creating deadly combinations.

Mayor Emanuel Cleaver of Kansas City noted that whereas "30 years ago we had three police for every one crime that was committed...Today we have three crimes for every one police officer."

A redevelopment director from Danville, Virginia said in Roanoke last year he was stunned at the surprise of Sen. John Warner (R-

Va) when he testified before Warner that the issues, alienation, fear, and frustration in Danville were as deep-seated and volatile as the rage of Los Angeles.

Today, as cities in America face the greatest disparities in per capita income ever recorded, they confront a world of non-existent jobs, too little capital availability, overwhelming violent crime and drugs, inadequate housing, and a perverted welfare system. These are problems beyond the fiscal capacity of a growing number of cities and towns to confront alone. They are issues which will require massive changes in resource priorities and incentives - not band-aids.

And the nation, and its cities and towns, face a related challenge of racism, fear, alienation, and family deterioration. This is a challenge which no amount of money can overcome, for it is a deeper issue of values and commitment to a social compact. It is a challenge to the nation, to each community, and to each family. It is a challenge which will require first and foremost leadership. It will require not looking to blame victims, not looking to further divide the nation and avoid responsibility, but rather to struggle together.

It will require recognition that this is an issue which is critical to the nation - a nation of cities and towns, a nation that was created to be indivisible.

As Mayor Cleaver said:

"Until we realize that there is an inextricable relationship between the survival of the core of our metropolitan areas, the cities around this country and the survival of this nation, we are not headed in the right direction."

For more than a decade the federal government has had no national policy for cities.

We hope that the report to the Majority Leader today will mark the first steps in an effort to create a policy to reinvest in America's economic security and in shaping a national agenda to restructure the economic foundation of our nation.

We must again become a nation where every child, irrespective of place of birth, has an equal bridge to opportunity, and every community has an equal base of resources.

By 2000, we must be a nation that invests in its future generations and its eroding foundations. Our ability to reverse the current course of neglect and disinvestment, our ability to confront the issue of race will define the quality of the workforce in the year 2000 - a year when a growing number predict Japan will surge past our country.

America's cities and their public servants today face some of the

most serious divisions and antagonisms ever experienced. They face a growing disparity between cities - the greatest ever measured, between income groups within cities, between races, and between public expectations versus resources. Our communities face far more difficult fiscal conditions and demands than corporations.

There is a common element which holds these issues together: they are perceived not only as intractable, but largely perceived as a "that's their own problem" issue by too many Americans, corporations, and other levels of government.

It leaves some of the most devastating issues there are, issues largely different than previous generations have faced, to a generation of leaders untrained for the trenches of hate and fear involved.

For there is, as Congressman Shays so aptly describes it, "a conspiracy of silence."

As our President Don Fraser, the former member of Congress who ascended to the leadership of the city of Minneapolis, put it, we face a new and very different issue in every city: a growing proportion of children from single parent families. This issue has long term implications for every city. It has implications for our society. It is fundamental. Unless we change it, confront it, and initiate an agenda that involves every level of government and part of the community, we fear that our communities will become the same kind of victims as these children.

We believe the committee should consider and recommend:

- o The development of a short and long term joint federal fiscal agenda. The point is to develop a joint position on structural, long term human, physical and fiscal deficit reduction - which will require controlling federal entitlement programs. This is critical for the following reasons:

- * interest on the national debt last year exceeded the combined spending of all 50 states; it is the fastest growing part of the federal budget; and it is swallowing up and replacing the federal government's ability to invest in the future. The President's budget actually projects the structural deficit will be increasing over the long term - crowding out federal investment in domestic America and the credit markets for not just state and local governments, but for business and individuals;

- * the uncontrolled growth of entitlement programs (such as Social Security, Medicare, and Medicaid) are eating up more and more of the federal budget. Without some control, it is a matter of time until they consume all federal revenues. With the exception of Medicaid, these are federal spending programs on

Americans who have completed their productive contributions to the economy - so they compete directly against investment in those Americans and state and local governments who will be the foundation of the nation's economic future and security; and

* the uncontrolled growth of Medicaid absolutely hammers state budgets. Because states are required to match federal Medicaid payments to states, this has become a huge, unfunded federal mandate eating governors and state legislators out of house and home. Absent controlling these soaring mandated costs, states will have no choice but to continue to cut aid to local governments and impose or pass on unfunded mandates. If the federal government does control it, it will be critical that we all be at the table instead of having it done to and despite us.

Today, federal priorities appear to be driven more and more by unconscious than conscious decisions. These decisions have ramifications for cities and city capacities to implement federal programs. Our research demonstrates that the strength of metropolitan regions correlates inversely with the level of central city suburban disparities. At the very least, federal policies should help to address that issue.

We appreciate the opportunity to present our views, findings, and concerns to the committee. I would be pleased to answer any questions.



CLINTON HEALTH CARE PLAN

The Impact: On Cities & State Municipal Leagues

THE HEALTH CARE PROPOSAL PRESIDENT CLINTON UNVEILED WEDNESDAY PORTENDS MANY SIGNIFICANT CHANGES FOR CITIES WHICH WILL BE REVIEWED AND ACTED UPON BY THE CONGRESS OVER THE COMING YEAR. IT CONTAINS MANY CHALLENGES AND QUESTIONS FOR AMERICA'S CITIES AND TOWNS.

MUNICIPAL IMPACTS

The plan would change the way cities provide and municipal employees choose health care, alter the way that public health care services like public hospitals, health care centers and ambulance services are paid for and impact state municipal league-operated health care and workers compensation programs. At the same time, this plan proposes a number of mechanisms to control health care costs, a top objective for municipal leaders.

EMPLOYEE HEALTH INSURANCE

The proposal would require all municipal employers, and most other employers, except the largest, to pay 80 percent of an annual premium into new, state-created regional health alliances or state single-payer plans, on behalf of their employees and dependents. Each employee would be responsible for the balance of the cost of the "alliance premium."

The maximum cost of alliance premiums for all employers, including municipal employers, with 50 or more employees is set at 7.9 percent of payroll. For small municipal employers (those with fewer than 50 employees) the contribution would be capped at lower levels based on the average wage of a comparable full-time municipal employee. For those communities whose average municipal wage cost is \$12,000 or less, the cap will be 3.5 percent. Then there is a graduated scale until the average annual wage level exceeds \$24,000. At that point, the cap is 7.9 percent for small municipal employers, as it is for all large municipal employers.

Annually, city employees would be able to choose their coverage from among a list of certified health plans for their coverage. If their state government elected to create a single-payer plan, which is an option for states under the proposal, no particular choices would be required by the employee. If their state elected to create a health alliance(s) then the employee would have the choice of three plan types:

- *Low Cost Sharing Plan—an HMO-like plan with low out-of-pocket cost exposure for the employee;*
- *High Cost Sharing Plan—an HMO-like plan with higher out-of-pocket cost exposure for the employee;*
- *Combination Cost Sharing—a preferred provider type plan.*

The out-of-pocket cost exposure for the employee in the preferred provider-type plan would be lower if the consumer elects to use services provided within a pre-approved network of providers and higher if the consumer elects to go "out-of-network".

Depending on the number of health plan bidders that submit successful proposals to the health alliance and decisions by the health alliance an individual would be able to choose from any number of HMO-like and preferred provider type plans. However, the alliance may elect to limit the number of preferred provider plans to three.

The health plans would be paid for with money held by the regional alliances or state single payer plan based on the amount of enrollment that they experience. There is no direct relationship between the "alliance premium" paid by an employer and employee and the "health plan premium" paid to a health plan on behalf of individuals and families.

Whether cities will experience savings or greater outlays will vary depending on several factors. For some cities there may be potential savings because their current plans may cost more than the "alliance premiums" which would be uniform over large market areas. For other communities the mandated "alliance premium" may exceed current costs, because the city belongs to a group with good experience, because dependents are not covered, because part-time employees are not covered or because the package of benefits currently provided is narrower than that proposed in the reform plan's package.

Employers opting to carry more than 80 percent of the cost may do so, however, that amount above the benchmark will become a taxable benefit. Municipalities and other employers are permitted to pay more than 80 percent of the "alliance premium," but over time the tax preferred nature of these payments to employees will cease. To administer this

provision, all employers, including municipalities, would be required to register benefit plans with the U.S. Labor Department by December 31, 1994 and list on employee W-2 forms the amounts of tax-exempt and taxable contributions for health coverage.

STATE LEAGUE INSURANCE POOLS

The plan would eliminate all municipal league health pools unless these pools elected to become state certified health plans opening their enrollment to anyone and having a minimum capital of \$500,000.

The operation of municipal league workers compensation pools would also be affected. Under the plan, the injured employee's chosen health plan would be the initial medical care provider in all cases, including workers compensation cases. The municipal pool or employing jurisdiction, in the case of self-insured jurisdictions, would be billed by the individual's health plan for the cost of the individual's care.

All health plans, in order to be certified by the state, must be in a position to provide the specialized medical services required by workers compensation. State laws regarding the choice of medical providers in workers compensation cases would be overridden. The same general procedure would be followed in the case of auto insurance.

PUBLIC HEALTH, AMBULANCES AND PUBLIC HOSPITALS

The plan would dramatically revise the method by which public hospitals, doctors and other public and private health care providers are compensated for services. Payment would be provided for a comprehensive package of medical services on behalf of all care recipients, except undocumented residents.

At the same time, the health plans and alliances would be under strong pressure to constrain the cost of care both through controls on the type of care given and on rates of provider reimbursement. Thus, individual public health providers will have to evaluate how these two competing changes would balance out: (1) payment for most everyone who walks through the door and (2) strong cost controls on reimbursement rates for all services.

The plan, under a schedule yet to be released, would eliminate disproportionate share payments now made under the Medicaid program to medical institutions serving disproportionate numbers of poor clients. The plan would create a category of "essential community providers" that serve a disproportionate number of poor clients and require all health plans to reimburse these providers at the same rate as other providers or at rates based on Medicare principles for a five year transition period.

Most health plans currently exclude various preventive services often provided through publicly operated health centers. However, these are required components of Clinton's guaranteed health package, which must be offered by all health plans. Public health institutions, therefore, must aggressively seek to have their services included in the offering of health plans or seek certification as essential community providers so that reimbursement can be obtained for these services.

Ambulance services are included in the basic health plan so that cities which operate or subsidize the operation of ambulance services should seek inclusion in all health plans. Reimbursement of ambulance services will be made on determinations of medical necessity.

MAJOR REFORMS AIMED AT CURRENT PROBLEMS

Current large and spiraling medical costs are to be controlled by several major steps: (1) standardization of claim forms, procedures, and policy components; (2) gradually setting enforceable targets for the permitted rate of health premium cost increases; and (3) dramatically reducing the number of health care payers.

The uninsured population, currently estimated at 37 million, is to be covered by the new program. All residents except undocumented residents and those in prison are to be covered by the new plan.

Other problems, such as the variation in benefits and inability to compare the offerings of health plans will be addressed by a mandatory standard and comprehensive package of benefits for all as well as the provision of comparative performance information on all plans.

The plan is designed to eliminate the current ability of health plans to limit or deny enrollment or drop coverage to individuals because of an individual's health status, the so-called "preexisting condition."

The plan also contains provisions designed to emphasize the training of primary care physicians, physicians assistants and skilled nursing professionals to provide a greater emphasis on primary and preventive care. Measures designed to create incentives to improve the quality of and access to care in medically under-served areas, such as central city neighborhoods and small rural communities are also included.

OFFICE OF POLICY & FEDERAL RELATIONS
NATIONAL LEAGUE OF CITIES
OCTOBER 1993



Mr. TOWNS. What I would like to do at this point is to break for 10 minutes, come back at 12:10 and resume. Is that all right for the Members?

Mr. SCHIFF. Yes, Mr. Chairman, with one exception, if I may. I think Mr. Mica has a unanimous consent report from the ranking member of the full committee, Mr. Clinger. If you could recognize him, he could do so.

Mr. TOWNS. I will recognize him for that.

Mr. MICA. Mr. Chairman, I ask unanimous consent that questions from Representative Clinger be submitted and also directed appropriately.

Mr. TOWNS. Right. Without objection, so moved.

Mr. SCHIFF. Thank you, Mr. Chairman.

[The information follows:]

Questions from Rep. Clinger

QUESTIONS FOR G.A.O.

1. It seems that eroding tax bases and the accompanying problems are affecting rural communities, as well as large urban centers. If this is correct, why did GAO not expand its survey to include these areas?
2. In light of what you found in this study, is it your opinion that state and local governments, given their current fiscal restraints, will continue to be able to provide the current level of services and pay the costs of compliance with new unfunded federal mandates?
3. To what degree do unfunded federal mandates exacerbate state and local government fiscal distress?
4. As I read your testimony, it appeared that the first resort of states and localities was to raise revenue through user fees or, in some cases, taxes; cutting services seemed to be a last resort. Is this an accurate reflection of state and local actions in response to budget shortfalls?
5. Have state and local governments, in general, aggressively tried to cut waste and improve efficiency in their programs and operations in order to maximize existing resources?
6. Are the current fiscal difficulties of many of states and localities part of a natural cycle of growth, or are these non-Federal budget problems somehow different from those that may have occurred in the past?

Mr. TOWNS. We will break in 10 minutes, come back at 12:10.

And just before we go, we have also been joined by Congressman Payne who has also joined us too.

[Recess taken.]

Mr. TOWNS. We have to vote around here, so that was a vote, and of course when the bells go off, everybody runs. Let me begin by asking I guess you, Mr. Scheppach, will States and cities like—say States and cities, period, which now have a significant financial contribution to servicing the poor, those States that have a large poor population, will they be compensated under the administration's health care plan?

And I think about New York in particular. I am from New York, and there we spend \$50 million in terms of just for prisoners. The undocumented is 10 percent of our uninsured clinic patients and I know you indicated that you have been in contact or have had dialog and that you felt comfortable with the process moving forward, so I feel comfortable asking you this question.

Will areas like that be protected under this plan?

Mr. SCHEPPACH. You raise a number of issues. First off, the Federal Government is supposed to pick up all of the additional subsidies for low income individuals, OK? I don't know what the—I mean, that means that a certain percentage of the population that is uninsured now would be mandated, so if they are in fact working, then they would be picked up.

I think the numbers show that that would reduce the uninsured from around 37, 38 million down to about 8 to 10 million. That remaining 8 to 10 million then would be in fact subsidized in some sense by the Federal Government.

So I can't remember exactly what New York's numbers are, but I think they are around 14 to 15 percent are uninsured and of course some States are as low as 6 percent and some as high as 25 to 28 percent, but I think that the Federal Government would take that responsibility and pay a share for everybody that is up to—I think the poverty is 150 percent of poverty.

In terms of the undocumented aliens, I think what they are thinking is that there would be some money available for emergency care, but emergency care only for undocumented, and it is unclear yet whether that would come through some residual of the Medicaid funding or some special block grant or in some—I think they are talking about increasing some of the public health monies.

So, again, I think there is money available supposedly to go to States to take care of the undocumented, but only for the emergency care, and of course a lot of States and counties, I think, are in fact funding a lot of additional services which they would probably be forced to continue.

In terms of prisoners, my understanding is that there would not be any additional Federal money for that population.

Mr. TOWNS. Ms. Todd, you have come from an area that has a tremendous amount of undocumented as well so this must be a concern of yours too.

Ms. TODD. Well, it is a major concern because the Federal policy is nothing that we can influence directly, and we are facing a situation where we have many undocumented aliens who come into our

borders in many of our States, and we as county governments have the responsibility for providing total health services to them, and this amounts to hundreds of millions of dollars. It is a concern and we do believe that the Federal Government should provide support for the ramifications of a Federal policy.

Second, you alluded to the criminal justice system. In county jails, and counties are primarily responsible for criminal justice, we have three types of prisoners. We have those who have been sentenced and are serving their time, those who are awaiting transfer to State prisons, and then we have those who do not have the financial resources to make bail. They are pretrial detainees. They have not, under our American system of justice, been adjudicated or judged as guilty, and they are innocent until proven guilty, and yet the current administration's plan would exclude them from receiving health care, which I personally believe is a constitutional issue that needs to be addressed. Currently it is my understanding they can get some support, but the legislation specifically excludes them.

Also referencing the community providers, there is another concern that we have on the county level. The legislation provides for what they call essential community provider status, and that is for those that provide for the underserved. You mentioned the 37 million people. Those of course are the ones that the local governments, particularly the counties and some of the larger cities are providing health care to.

The essential community provider status which will receive the Federal funds are designated by HHS under the legislation, but then further on in the bill, it alludes to exemptions that are made available to health care plans, and it is not specific as to how that will impact us, but we are concerned that if a health care plan could go to the State and request a waiver from dealing with the essential community providers, and indeed would create a two-tier system, which is defeating what is the original intent of this legislation, to provide equal access and opportunity for all.

So that needs to be addressed, Mr. Chairman.

Mr. TOWNS. Thank you very much. Let me ask, well, actually any of you: Do you have estimates on what the costs would be to State and local governments in terms of startup and to administer the administration's health reform bill?

How difficult will it be for jurisdictions to come up with the money to implement this proposal?

Mr. SCHEPPACH. You are right, the administrative and startup costs are fairly significant. I think what is in the administration's bill is that there will be some money going directly to State governments at the time that the Federal legislation in fact passes.

That would be sort of planning money for States, and then once a State in fact enacts their legislation, that would set up alliances, there is an additional amount of money that would in fact come to States, and then of course once you triggered onto the system, I think you would in fact get the subsidies.

But you are right, we have not made an estimate of what that cost is, but I think that the plan is aware of that and there are moneys available.

Ms. TODD. I don't believe that issue has been adequately addressed. I know that the counties have to pay over \$30 billion now from our local resources, which are limited. Many of us face property tax caps and have no additional revenue sources.

I hear figures like \$700 billion tossed around and I would urge you—for the total program at some point in time. I don't know any more than you do, and I would suggest that is something we really need to take a look at.

I don't know that the cigarette tax will be a sufficient amount of money to fund the proposal as has initially been suggested.

Mr. SHAFROTH. Mr. Chairman, my understanding is there are no numbers available from either the House or Senate budget committees on total cost, much less who is going to bear what share.

We were discussing while were you voting, one of the major issues that will be part of this plan will be how that capital is raised when the plans commence, and there is not yet good information about how that capital will be raised, whether it will come through the municipal finance market, and if so, who the issuers will be what the impact on existing municipal finance programs will be. So it is something we will have to get back to you on.

Mr. TOWNS. Thank you. Let me just ask this. I am not sure who raised it. I think it might have been you, Frank, I am not sure at this point.

You talked about flexibility in dealing with problems and you talked about in terms of school equity and a lot of other things that might pop up as we move forward, and that the locals should have some flexibility to be able to deal with some of these issues.

I don't know, was that you that raised that point?

Mr. SHAFROTH. I believe both Ray and Barbara raised that issue. It is a substantial issue, one that Congressman Condit has raised on several occasions.

Here early on I raised it in the context depending on how health care alliances are set up within States. You are going to have an issue which is comparable to the school issue going on in State after State right now which is, if an alliance is set up say to cover just the city of Detroit but not the suburbs, you have a huge cost problem because your base will be just the same as the tax base.

The base will be exceptionally poor and yet the service needs will be far higher than they would be in the suburbs. So there is little direction in the plan now how you crosscut.

So there is the potential here to have a duplication of the difficulties that are confronting I think virtually every State in the country about school equity, and those same issues are clearly going to emerge with regard to health care depending upon how those alliances are set up in a geographical sense, that is, how they cross borders and deal with the disparate issue.

Ms. TODD. May I add something very quickly?

Mr. TOWNS. Ms. Todd.

Ms. TODD. A cookie cutter approach will not really adequately address this. The best suggestion we could give to you would be to look at the existing delivery systems that you have in place and give the flexibility to utilize those delivery systems. Involve the communities to a greater extent in monitoring and administering

how these programs are put into place, because they best know the needs and concerns of their communities and their people.

Mr. TOWNS. You know, I agree with you and I am not sure how we get there, but I think that for too long we have wasted resources.

You know, if the enemy is coming across one bridge, we do not take our—take our troops to a different bridge. We go to where the problem is, and I think that quite often that we have not done that, and I think that somewhere along the line, that if we are talking about reform, that we must begin to address the areas that really have the problems and I am hoping that this is true reform, because if not, then we are going to end up in worse shape than we are now if we do not look at the areas where the problems are, if there is an epidemic, we need to address it.

And when I look at the whole undocumented situation and I just think, suppose there is a crisis of some sort. How do we deal with it? I think we need to have the kind of flexibility to be able to go and deal with it, because the problem that is created sometimes could even make things worse, and I think that we have to recognize that.

So I agree with you. Let me thank you for your testimony and let me yield now to the ranking member of the committee, Mr. Schiff.

Mr. SCHIFF. Thank you, Mr. Chairman.

Mr. Scheppach, talking about—am I pronouncing your name—

Mr. SCHEPPACH. Scheppach.

Mr. SCHIFF. I am sorry, sir. I thought I made a mistake there. Mr. Scheppach, talking about what experience the States have in the delivery of health care, even in Hawaii, which I think probably offers the most comprehensive as far as State plans go, I am not aware of any State that does now or even contemplates being the purchasing agent for health care for nearly all of the citizens of that State as is called for, as I understand it, in the administration's plan.

Are there examples of any State government that has that kind of experience?

Mr. SCHEPPACH. Let me say first of all, that I think the plan allows the State to set up alliances, but the alliances can be a non-profit, they can be a quasi government agency or they can be a government agency, and I think what you will find in a significant number of States, that these will in fact be set up as nonprofit organizations and they will be run by a board and the board will essentially be composed of employers and consumers of health care.

So I don't think you should think of State government as actually running the alliances on a day-by-day basis, but they will set up these entities to run.

Mr. SCHIFF. I respectfully think that is a distinction without a difference, because we have a situation where most people are going to be forced to join these alliances, whether they wish to or not, and the alliances will be set up by the State governments and regulated by the State governments, so the State governments are still the responsible party ultimately for the purchasing of health care for their citizens, and I know of no experience that State gov-

ernments have, with due respect to the State employees, to that extent on behalf of health care purchasing.

Mr. SCHEPPACH. Well, let me just say that if you look at who runs health care in this country at this time, the States run with the counties and all the Medicaid programs, which I think is in fact the largest delivery of health services.

Second, they in fact run their programs for their employees. I think if you add those together, they are right now the largest purchaser of health care directly.

Second of all, they do all of the insurance enforcement and all of that regulation. Most of the tort things are in State courts and that is State law. They are the ones that have done cost control in terms of hospital regulation, such as Maryland and so on.

So I think as you look across the levers of policy in health care, I think that most of them reside at the State levels.

Mr. SCHIFF. Since you mention employees, since I was a State employee of New Mexico as well as a city employee in Albuquerque, I know that as we have the outline of the administration's health care plan, that Federal employees will be required to join these regional alliances.

Frankly I am not sure the Federal employees have found that one out yet, but I know that is here in Washington.

Do you know, speaking for State, county, and municipalities, from what we do know of the administration's plan, is the same compulsion placed on State, county, and city employees? I assume it is.

Mr. SCHEPPACH. Everybody is required. The only people that are out of the regional alliance are those firms of—

Mr. SCHIFF. There are a couple of exceptions, right, and even those have tax consequences if they go that way adversely. Let me ask this question: As a representative here today of State, county, and municipal employees, has there been any poll taken that you know of of State, county, or municipal employees saying, do you want to give up your current program to be forced into this new regional alliance? Has anyone asked them?

Mr. SCHEPPACH. We haven't really done any specific poll, but I think where the Governors are is that if you are going to make alliances work and you are going to have the Medicaid population in, small business in, you need to have other State and local employees in.

Mr. SCHIFF. Well, in the sense I am raising this question, the Governors are 50 employees. I am wondering about all the other thousands of State employees. Has anyone asked them yet, do you desire to be compelled to give up your existing choice of benefits as a State under an employer and feel compelled to join these new regional alliances? Has anyone asked them yet?

Ms. TODD. Perhaps the question is premature because we still don't know what is going to come out of Congress, you know. We are working at this point as counties to ensure that as much flexibility as possible is involved and that we, as county providers, because that is the other part, and you have very well addressed that, that not only do we serve the underinsured, but we employ thousands of people ourselves, and we are employers and we want

to have the same assurances that we can provide for our employees.

In my county, for example, Pinellas County, we provide insurance and we go out and actively solicit proposals from different groups and then we offer this to our employees and we would like to have the flexibility and the ability to do the same.

Mr. SCHIFF. Mr. Shafroth.

Mr. SHAFROTH. I think, Congressman, there are two questions here. First, I notice that in our survey which we brought up this morning, that the single largest factor affecting local budgets last year was the cost of employee health care benefits.

So from the employer's side, there is deep concern about the existing situation. But how it cuts across city lines will be very different. In New Mexico, there are a lot of the smallest communities that provide virtually no benefits to the employees, so in those cases the municipal employees will say, hey, getting something that guarantees us access is far better than what we have now.

I would suspect in Albuquerque where the benefits would stand a good chance of being less than they receive now, the answer might be different. So I think any survey is going to show a wide variety and I assume AFSME will make its views known to you and to all of us as we get more details of this plan.

Mr. SCHIFF. Ms. Todd makes a very good point, that we are evaluating a plan that does not exist yet in terms of a specific bill introduced to the Congress. We have a great deal of public commentary and testifying before Congress on conceptual ideas.

But I would respectfully—I have another item I want to ask about but I would respectfully suggest, and I would agree, Mr. Shafroth, that there would be a difference of opinion. I mean, I am sure all Federal employees don't agree, so one can assume honest differences of opinion with other citizens, no matter who they work for, but I would like to respectfully plant as a suggestion to your organizations the idea of some type of polling of your State, county, and city employees as employees and to see what their preferences would be.

I would be interested in knowing that. I would be interested in knowing what the Federal employees think, like I say, once they find it out.

The other area I want to ask about is unfunded mandates. Ms. Todd, you spoke several times rather emphatically in opposition to unfunded mandates. As a general conception, Mr. Scheppach, for the Governors, and Mr. Shafroth for the cities, do you agree in your opposition to or at least questioning of unfunded Federal mandates?

Ms. TODD. Do we agree?

Mr. SCHIFF. You several times, Ms. Todd, already spoke on that and spoke—

Ms. TODD. OK, so you know how I feel.

Mr. SCHIFF. You made yourself clear, especially complimenting the bill that would limit them. I am wondering if your fellow witnesses on behalf of their organizations agree with that.

Mr. SCHEPPACH. Yes, basically we do. Mandates have been a significant problem for States. Our primary problems are in the Medicaid area. It has contributed to phenomenal explosive growth.

As I mentioned before, we have two States that now have done a comprehensive analysis of the impact.

I think what you will find for States, it is 80 percent is Medicaid and 20 percent is education and environment and so on. I suspect that is finally a flip from local government where I think they get more impact on the environmental side.

Mr. SCHIFF. That is because the Federal Government mandates what needs to be covered.

Mr. SCHEPPACH. It is benefits primarily. But it is cumulative.

Mr. SHAFROTH. Our members last year at our annual meeting adopted a resolution supporting Congressman Condit's legislation on unfunded mandates. This group here worked last year just on the subject of Medicaid mandates, and reached—we spent a year working on the topic and President Todd participated in that helping—

Mr. SCHIFF. You are in support of Congressman Condit's bill, I presume?

Mr. SHAFROTH. Yes, sir.

Mr. SCHIFF. Just a couple more things on this and I thank the Chair for the generosity of the time.

Briefly, in the administration plan as we see it, do you see unfunded mandates being imposed on your respective areas of government that you are concerned about or do you believe that the Federal Government will pay for whatever it requires you to do?

Has there been any analysis done yet of that?

Ms. TODD. Yes, sir.

Mr. SCHIFF. Ms. Todd.

Ms. TODD. We have done an analysis and again, I would reference what you and your colleagues have mentioned as a concern, the undocumented aliens are specifically excluded, and it is the mandated responsibility of county governments to handle that issue.

Second, those of us who are responsible for—

Mr. SCHIFF. Is that in the plan? Because I didn't see—

Ms. TODD. Yes. Yes, it is. Also, specifically excluded in the proposed plan are the jail population, and as I referenced earlier, that also includes pretrial detainees who are innocent until judged guilty.

It is ambiguous to us exactly as to what our role will be in the whole situation. So we are concerned about that. We have done an analysis and we will, of course, continue to closely monitor it, but, yes, we are mandated.

Mr. SCHIFF. And what might we say in fairness to the administration? Isn't the current responsibility for those groups already with the county government partially?

Ms. TODD. Currently we receive some funds for the jail population from insurance plans or Medicaid, and currently, we receive some supplemental, not sufficient, but there have been appropriations to deal with undocumented immigrants.

Mr. SCHIFF. Any other analysis, either from—

Mr. SCHEPPACH. Just let me say that we have brought in State budget officers to work on this and we are working very hard to do a consistent State-by-State impact, and we will probably have that done in 1 month to 6 weeks.

It is very complicated, however, because there is a significant number of savings, both to local government and to State government in this plan. I mean, for example, the Federal Government is going to be picking up all of the care for low income individuals for a basic benefit package. So there is going to be a windfall now for local government that have been picking it up, as well as for States.

On the other hand, there are some new programs. For example, there is a new long-term care program, and how this nets out is pretty complicated because there are 8 or 10 major impacts, and I just think it is going to take time.

Mr. SCHIFF. One final thing, and this is about a proposed unfunded mandate, but not in health care, so if you wish to answer now, I would extend you the time. If not, if you need to research this, I would just ask if you would get back to me.

I am also on the Judiciary Committee, being there is why I was a little late this afternoon, and the Brady bill as currently written calls for, I think, it is a 5-day waiting period with a mandate that the local county sheriff or the local chief of police shall do a background check.

In other words, this bill does not mandate a Federal law enforcement agency to do a check, it mandates the local law enforcement agency to do the check, and it does not propose any funding for doing the check, and I wonder if your organizations have a position on that bill as an unfunded mandate and if so, if you could just provide it to me, I would be grateful.

Ms. TODD. OK.

Mr. SCHIFF. Mr. Chairman, thank you. I yield back.

Mr. TOWNS. Thank you.

I yield time to Mr. Condit of California.

Mr. CONDIT. Thank you, Mr. Chairman.

Monday I met with the National Conference of Mayors and representatives from your groups as well, and they have commissioned a study that hopefully will be finished in a short period of time about the cost of unfunded mandates, which I think is essential for us to have a meritorious case as we move forward in Congress, and I would encourage you to do everything you can for us to get good numbers.

That is basically what we have to have, I believe, to prove our point. In asking that, I know Ms. Todd and I know her commitment to this—the other two witnesses, is this the No. 1 legislative priority for your association or groups?

Mr. SCHEPPACH. It is near the top for us. I think health care reform is probably our No. 1.

Mr. CONDIT. OK.

Mr. SHAFROTH. Dealing with public safety is our No. 1 priority, but this is in the top five.

Mr. CONDIT. There are several proposals in Congress about how to deal with unfunded mandates. One would be to allow waivers. That would simply mean if you don't have the money or the wherewithal to do the legislation, you get a waiver, you have to go before a body, a commission or some group of people and ask for a waiver.

Is that enough for you or do you think there just ought to be a flat stop to unfunded mandates to local governments?

Ms. TODD. I think you should first of all have a fiscal note for everything that comes through and analyze what the cost of it is. If you go shopping for something, you want to know what the cost is and that you have adequate money in the bank, so it makes perfect sense to me that that should be the first thing that you should do, and second, I think that if there is a cost, it is a national priority that the Federal Government should fund it.

Mr. CONDIT. The other two witnesses?

Mr. SCHEPPACH. My sense is that that is probably not enough. I mean, it is also hard to stop all mandates. I mean, our association at times has in fact recommended some mandates, particularly like in the Family Assistance Act.

So I think one of the things we are very interested in is a very serious consultation process that we can talk about it very, very early on and that we have good information on the impact and that the Congress really only do it when it is sort of a consensus that this needs to be done and it is a high priority, which is a long shot from what is happening now.

Mr. SHAFROTH. I think that is right. I think one of the outcomes of our study on Medicaid last year was there have been proposals in the Congress to simply put a Federal cap on Medicaid, which would not relieve the responsibility of States and local governments of providing federally mandated services to citizens, but would alleviate the cost to the Federal Government.

We understand that is a cost that is already there and is going to be there somehow and the issue more is to make sure there is a consultation process so everyone is at the table, there is full disclosure of cost benefit analysis, risk analysis, so everyone understands who is being required to do what, why they are being required to pay for it, where the possible revenue sources are.

I would say, while we are strongly supportive of your legislation and others, clearly, at the same time, we are deeply interested and have made our first priority with regard to unfunded mandates a demonstration by the Congress that the requirements under the Safe Drinking Water Act and the storm water provisions are reduced and they are reduced before this first session of Congress leaves, so that—because right now there is no city in this country that does not want to make sure that the drinking water is safe in their community.

There is a huge understanding that there are provisions in the current law and regulations that have no relationship to reducing risk or reducing costs.

Mr. CONDIT. Which—well, which brings up, and Ms. Todd mentioned October 27. I just want to let you know that we in Congress, the Unfunded Mandate Caucus intends to participate on Unfunded Federal Mandate Day on October 27.

We have reserved 2 hours of time for special orders to talk about unfunded mandates. We also will be doing a news conference, a joint news conference with the 67 members of that caucus and we hope to help educate our colleagues as well as the Nation on unfunded mandates, and I do appreciate your being here today.

I appreciate your kindness with your answers.

Mr. Chairman, I appreciate your tolerance of me. I am not a member of this subcommittee, and you invited me and I hope you



will invite me back again. I would appreciate very much you letting me be here.

Mr. TOWNS. It is a pleasure to have you. Let me say we really appreciate leadership in this area. You have been in the forefront.

Mr. SCHIFF. Your timing is impeccable.

Mr. TOWNS. Let me just say in closing, this hearing has raised critical questions about the fairness of the administration's health care and welfare reform proposal.

Especially for those States and local governments who have significant numbers of poor residents. Let me go on record now saying that fairness and equality must be the cornerstone of any acceptable plan.

We must also eliminate second-class health care for urban and rural areas. We do not need a two-tiered system. It is my intention to raise many of the concerns expressed at this hearing with the administration before the health and welfare reform legislation is introduced in the Congress.

And I would like to say I look forward to working with the administration and I also look forward to working with my colleagues on this subcommittee to find workable solutions to these difficult and complex issues.

But I think that we have the capacity and the ability to do it and if we really are going to reform health care and welfare, it is going to require that kind of cooperation.

So let me thank the Members of the committee for their testimony. You have been extremely helpful and we look forward to talking with you further as the process continues to move. This hearing is adjourned.

[Whereupon, at 12:50 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

HRIR--Opening Statement
Rep. Donald M. Payne (D-NJ)
October 6, 1993
"Can States and Cities Afford to Implement
Health and Welfare Reform?"

Good Morning. I would like to begin by commending the Chairman for his leadership in calling this hearing. I would also like to extend my warmest regards to the House Majority Leader, Congressman Richard Gephardt for agreeing to testify before the Subcommittee today on this issue and for his leadership in requesting this report. And, I want to express my appreciation to the panel of witnesses who have agreed to testify today.

We all know the need for reform is urgent because according to new census figures released on Monday, there were 2 million more Americans without health insurance at the end of 1992 than at the end of 1991. President Clinton asserts that his proposal will address the millions of people in this country who are uninsured.

Some of the features of the plan released by the President will require large expenditures by state and local governments to comply with new requirements as specified in the proposal. One of the components of the plan that will be very costly to implement is the formation of the health alliances.

I know that the Administration hopes to cover some of the costs of the program through savings achieved in the Medicare and Medicaid programs. These savings will only cover part of what it will cost to implement reform.

According to the report released by GAO, state health care spending grew at an average rate of 7.6 percent annually from 1985 to 1991. And the national average of total state health expenditures constitute 21 percent of general state consumption.

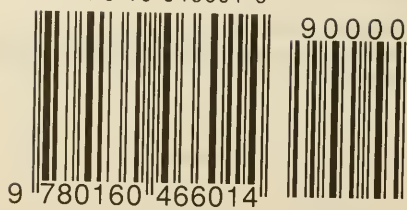
In preparing state and local budgets, these levels of government face constraints prescribed by law. They share responsibility with the federal government to deliver a broad scope of public services essential to our communities -- welfare, education, police and fire departments. Having served at the local level on the Newark City Council, I know the juggling act that goes on there.

The GAO report commissioned by House Majority Leader Gephardt is timely because it would serve as an indicator in the state and local ability to implement the President's plan. I agree with the basic premise/principles outlined in the plan -- health security, cost containment, administrative simplification, quality of care, consumer choice, and individual responsibility. However, like everyone else, there are aspects of the plan that I do not agree with.

This issue is very important because the overwhelming issue of cost will determine the feasibility of implementing such a plan.

I would like to again thank the chairman for calling this hearing today and the Majority Leader for donating his time to appear here today and I look forward to hearing the testimony of our witnesses.

ISBN 0-16-046601-6



9 780160 466014